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- 5) - J. Vingerhoets: The Kennedy round and the developing countries.
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John F. Kennedy Institute  
Center for Atlantic Studies

- Lista partecipanti
- Programma

3439

Tilburg, 14 - 16 dicembre 1967



CENTER FOR ATLANTIC STUDIES

HOGESCHOOLLAAN 225 TILBURG THE NETHERLANDS TELEPHONE 04250-70960

Colloquium "Atlantic Relations after the Kennedy Round"

14 - 16 December 1967

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- J. Vingerhoets

# JOHN F. KENNEDY INSTITUTE

CENTER FOR ATLANTIC STUDIES

HOGESCHOOLLAAN 225 TILBURG THE NETHERLANDS TELEPHONE 04250-70960

## Colloquium "Atlantic Relations after the Kennedy Round"

14 - 16 December 1967

### PROGRAMME

14 December	Afternoon	Arrival of the participants
	✓ 5.30 p.m.	Cocktails
	✓ 6.30 p.m.	Dinner
	✓ 8.00 p.m.	<u>Plenary opening-session;</u> William Diebold, Senior research fellow of the Council on Foreign Relations, Inc., New York, will intro- duce the discussions on the basis of the working papers.
		General discussion
	✓ 10.00 p.m.	Departure for the "Guldenberg", where participants will be lodged.
15 December	Discussion in three discussion groups	
	✓ 8.30 a.m.	Breakfast
	✓ 9.00 a.m.	Departure for the University.
	✓ 9.30 a.m. - 12.30 p.m.	1st Session
		<u>Assessment of results and failures of the Kennedy Round</u>
	✓ 12.45 p.m.	Lunch
	✓ 2.30 - 5.30 p.m.	2nd Session
		<u>Future Negotiating Issues and Policies</u>
	5.30 p.m.	Drinks
	6.30 p.m.	Dinner
	approximately 9.00 p.m.	Departure for the "Guldenberg"

16 December      8.30 a.m.      Breakfast

                  9.00 a.m.      Departure for the University

                  9.30 a.m.      Plenary final session  
Discussion and adoption of  
a summary report of the  
discussions  
Chairman:  
Prof. Frans A.M. Alting von Geusau  
Rapporteur-General:  
Pierre Uri

                  12.30 p.m.      Final lunch

The sessions will be held in the buildings of Tilburg University, Hogeschoollaan 225, Tilburg.  
The plenary sessions will take place in the Senate hall on the ground floor.  
The discussion groups will meet in seminar rooms C 11, C 12 and C 14 on the first floor.  
The agenda for the discussion groups is annexed to this programme.

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David Wightmann



CENTER FOR ATLANTIC STUDIES

HOGESCHOOLLAAN 225

THE HAGUE

THE NETHERLANDS

TELEPHONE 04250-70960

DISCUSSION GROUP II

Chairman : Prof. Harold C. Deutsch  
Rapporteur : Francois Duchêne  
Members :

- |                           |                     |
|---------------------------|---------------------|
| Zdenek Augenthaler        | Wolfgang Hipp       |
| Prof. H.W.J. Bosman       | Th.C. Hijzen        |
| F.G. Boulonois            | Bohdan Laczkowski   |
| Emerson M. Brown          | James Lewis         |
| Einar Carstens            | Raul C. Migone      |
| Ambassador P.A. Forthomme | Prof. Preben Munthe |
| A. van de Gevel           | Pierre Uri          |
| A.F.K. Hartogh            | Th. E. Westerterp   |
| J.L. Heldring             | Sir Michael Wright  |

# JOHN KENNEDY INSTITUTE

CENTER FOR ATLANTIC STUDIES

HOGESCHOOLLAAN 225

TILBURG

THE NETHERLANDS

TELEPHONE 04250-70960

## DISCUSSION GROUP III

Chairman : Prof. Jean Siotis

Rapporteur : K.M. Schreiner

Members :

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Nils Ørvik

André Armengaud

John C. Renner

K. Markensten

Z. Rurarz

Carl S. Dorn

P. Schlösser

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# JOHN F. KENNEDY INSTITUTE CENTER FOR ATLANTIC STUDIES

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## AGENDA FOR THE DISCUSSION GROUPS

### 1st session: ASSESSMENT OF RESULTS AND FAILURES OF THE KENNEDY ROUND

#### 1. Negotiating Techniques

In May 1963 the GATT Ministers agreed to base the multilateral trade negotiations upon a plan of substantial linear, across-the-board tariff reductions, which has given rise to problems concerning disparities, third countries and exceptions. Is it justifiable to conclude that more traditional techniques again came to predominate in the final bargaining phase because of the impossibility of finding more or less automatic rules for solving these problems?

#### 2. Non-tariff barriers

Agreement has been reached on an anti-dumping code and on a procedure for abolishing the American Selling Price System.

(a) How do you evaluate these results?

(b) Why has it been impossible to deal with other non-tariff barriers, although special groups were established for that purpose?

#### 3. Agriculture

In agriculture it has been impossible to agree on the way liberalisation should be approached (the problems of the support margin and access to the markets). The outcome has consequently been very limited. How do you evaluate the feeling of disappointment, both in the USA and in EEC?

#### The Kennedy Round and Developing Countries

4. Was the Kennedy Round, resulting as it did in a last-minute package deal between developed countries, the appropriate framework in which to "accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less developed contracting parties" (part. IV. of GATT)?
5. In the Kennedy Round the developing countries were expected to make a contribution to the overall objectives of the negotiations consistent with their trade and development needs. Wouldn't the contacts between the developed and developing countries have been more fruitful if one had tried to give more substance to the rule of not applying full reciprocity?
6. The Cotton Textile Arrangement

Is it in harmony with the purposes and the temporary character of the Long Term Arrangement on Cotton Textiles that several developed

countries made their tariff reductions on cotton textiles dependent on a new extension of the LTA after 1970?

7. The Kennedy Round and Socialist Countries

Why is Czechoslovakia, although a member of GATT, dissatisfied with the results, whereas Poland, admitted through the Kennedy Round, appears to be satisfied?

8. EEC as a negotiating party

How do you evaluate the impact of EEC, acting as a unit in the Kennedy Round, on the negotiating process and on the results? Is the existence of EEC too formidable an exception to the GATT rules to warrant the traditional, multilateral approach to trade negotiations?

Or would the traditional approach have yielded more results if EEC could have acted as a stronger unit with a forceful spokesman negotiating from a common commercial policy?

2nd session: FUTURE NEGOTIATING ISSUES AND POLICIES

1. Future negotiating techniques

Does the linear method give sufficient starting points for future negotiations or can the sector approach be looked upon as a useful device for dealing with disparities, exceptions and non-tariff barriers?

2. Future rules for agriculture

Which rules have to be designed in agriculture so as to reconcile the political and social necessities of domestic agricultural policies with a usable and acceptable basis for trade in agricultural products, taking into account the problems of the developing countries?

3. Developing Countries and Future Trade Negotiations

Mr. E. Wyndham White suggested - in his Bad Godesberg plan - exploring in the future the possibility of achieving free trade in the products of the most modern and technically advanced industries. These are of course not the sectors of interest to the developing countries.

Don't you think that the present feeling of discrimination among the developing countries would further increase if this suggestion were acted upon?

Is it not necessary in this connection to give high priority to the rapid implementation of a general system of preferences for the exports of manufactures and semi-manufactures from developing to developed countries?

Would you rather apply preferences to the same extent for every developing country or differentiate preferences according to the stage of economic development of each individual country?

4. GATT - UNCTAD

It is hoped that the second UNCTAD will reach agreement on tariff preferences, at least in principle. In UNCTAD trade problems will be dealt with as an integral part of economic development. Do you therefore consider UNCTAD to be a more appropriate framework for trade negotiations than GATT?

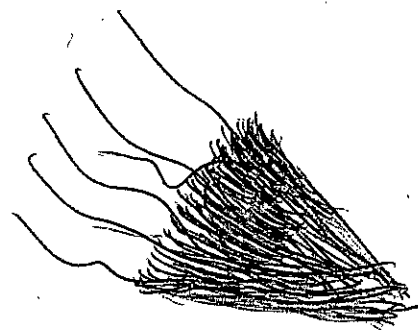
5. Future Trade Relations with socialist countries

Is it possible to take the negotiations with Poland as a model for trade expansion between centrally-planned and market economies in GATT?

6. Future problems of negotiating procedures

GATT was originally formed at the intersection of two differing impulses: (1) to re-establish the principle of non-discrimination in world trade; and (2) to accommodate the new movement towards regional free trade and economic arrangements.

- a. If regional arrangements spread further, how could freer trade between these groupings be promoted in the future?
- b. Should GATT continue to apply the procedures based on the multilateral approach, or should new procedures be evolved?
- c. What other agencies might play a role in developing world trade in the future?



ATLANTIC RELATIONS AFTER  
THE KENNEDY ROUND

Working Papers prepared  
for the Colloquium to be  
held on December 14 - 16, 1967

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W. Hipp

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Th. Hijzen

Résumé -

## INTRODUCTION

The sixth round of GATT trade negotiations, held in Geneva from 1962 - 1967, has been different from previous rounds in many respects.

It was initiated in 1962 by the Kennedy administration on the assumption that new economic and political realities in the sixties required new and broader instruments for liberalizing trade and for promoting harmonious development of world trade.

In Western Europe, the new common market had proved its success and its challenge, and Britain - it was thought - was soon to become its seventh member to be followed by three other European countries at least. The growing importance of the developing countries required new efforts by the industrialized nations to open their markets and to join in promoting their economic development. The changing patterns of East-West relations asked for creative western responses to the new situation. The new round, it was thought, should both broaden its economic objectives and serve as a step towards forming an Atlantic partnership.

It is the purpose of the Colloquium on Atlantic relations after the Kennedy Round, to assess the results and failures of the Round in the context of this new situation and the original objectives, and to consider steps to be taken in the future.

To this end, the working papers are grouped under two themes, and divided in two parts.

The first part opens with a short summary of results of the Kennedy Round, prepared by the GATT Secretariat. The following three papers, prepared by a team of the John F. Kennedy Institute, deal with the three major aspects of the round. The effort to introduce the linear tariff reduction method, to include trade in agricultural products and to deal with non-tariff barriers broadened the scope and increased the problems of the round. The first paper discusses those issues. The fact that EEC took part in negotiations as such has been another major innovation. What kind of unity it was and what impact it had, is being discussed in the second paper. For the developing countries, the round did not represent a major success.

Why this is so and what the round has brought them, is the subject of the third paper.

The first part is concluded by three small papers, dealing with special cases. Among them the cases of Poland and Czechoslovakia are case-studies on a broader and increasingly important problem for the future. The third one indicates the generally favorable reactions voiced by business in the western world.

A trade round with such broad objectives necessarily terminates with a lot of unfinished business, while the solutions arrived at raise new problems for the future. The second part therefore concentrates on future trade negotiating issues and policies.

It opens with a scholarly written chapter of William Diebold, in which he addresses himself to the policy-makers in Washington. The second and last paper has been prepared by Mr. Hijzen, chief EEC negotiator during the Kennedy Round. Written by a policy-maker, being the spokesman for Washington's most challenging unit, it complements Diebold's paper in several respects.

The papers of William Diebold and Bohdan Laczkowski are reprints from papers prepared for another purpose. The other ones have been especially prepared for this Colloquium.

The papers will be the basis for our discussions during the Colloquium. From them the questions are taken, which are to provide the agenda for the meetings of the discussion groups.

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## SUMMARY OF RESULTS OF THE KENNEDY ROUND

1. The Kennedy Round was a comprehensive negotiation. It attacked simultaneously, but with different techniques, the various problems standing in the way of world trade liberalization. It represented a move from the traditional field of "tariff negotiations" into the more difficult, but more rewarding field of "trade negotiations". This means that besides the well-known linear approach adopted for tariff reductions in the industrial sector, a determined effort was made to cope with the issue of agricultural protectionism and to negotiate commitments ensuring the access to markets of agricultural products. This had never been done before on a world wide basis. For the first time non-tariff barriers were put on the negotiation table. It was also recognized that full reciprocity should not be expected from developing countries and that their special trade problems should be particularly taken into account. The Kennedy Round thus inaugurated a global approach to trade liberalization. Not all the efforts were successful, but, the experience gathered by negotiators in the fields where relatively less progress was made, such as agriculture and non-tariff barriers, will no doubt serve as a usefull background in any future effort directed towards a further elimination of trade barriers.

2. The results of the Kennedy Round can be assessed according to different criteria depending on the sector of trade under study or the country making the analysis. This paper intends to serve as a preliminary compilation of factual information related to the extent and depth of concessions granted.

3. The results of the Kennedy Round, are contained in a series of legal texts specifying the international obligations which participating governments agreed to accept. In addition to the schedules of tariff concessions, separate agreements have been negotiated on grains, on chemical products and on anti-dumping policies. In the last two cases these agreements will contribute in an important way to the reduction of non-tariff barriers to trade. Protocols have also been drawn up providing for the accession of four new GATT members - Argentina, Iceland, Ireland and Poland.

4. The following participants in the negotiations made tariff concessions: Argentina, Australia, Austria, Brazil, Canada, Chile, Czechoslovakia, Denmark, Dominican Republic, European Economic Community (member States: Belgium, France, Federal Republic of Germany, Italy, Luxemburg, Netherlands), Finland, Iceland, India, Ireland, Israel, Jamaica, Japan, Republic of Korea, Malawi, New Zealand, Norway, Peru, Portugal, South Africa, Spain, Sweden, Switzerland, Trinidad and Tobago, Turkey, United Kingdom, United States and Yugoslavia. Poland undertook a minimum import commitment. These countries account for about 75 per cent of total world trade. Total concessions granted by these countries affect trade valued at just over \$40 billion. Other countries participated in the negotiations without making tariff concessions.

5. The GATT secretariat has made a first study of the tariff concessions made by certain of the main industrialized countries - the European Economic Community, Japan, Sweden, Switzerland, the United Kingdom and the United States. In 1964, the last year for which full details are available, the total imports of these

countries were valued at \$60 billion, of which \$23 billion already entered duty free. These countries have made concessions (either duty reductions or the binding of duties already at zero) on imports valued at \$32 billion. Duty reductions affect \$26 billion, or 70 per cent, of these countries' dutiable imports. The majority of these reductions are of 50 per cent or more; these affect imports valued at \$18 billion. Another \$5 billion are subject to reductions of between 20 and 50 per cent and a further \$4 billion are subject to lesser reductions. Trade in dutiable goods in respect of which no reductions were made amounted to \$11 billion. Further details are given in Table 1, which relate the depth of the cut to the height of the duty before the negotiations; this shows, for instance, that 30 per cent of trade in products in respect of which no tariff reductions have been negotiated face duties of 5 per cent ad valorem or less.

6. Cereals, meat and dairy products are not included in the results given above. The aim in these sectors was the negotiation of general arrangements. In the case of cereals, agreement relating to prices and food aid for developing countries amounting to 4.5 million tons of grains annually for a period of three years has been reached. Some bilateral agreements have been concluded on meat. In the case of dairy products very little has been obtained in the negotiations.

7. Table 2 summarizes the results in other sectors.

As noted above, duty reductions will affect items accounting for 70 per cent of all dutiable imports of the countries under consideration.

Duty reductions will affect a greater percentage of dutiable imports in the following sectors: chemicals (93 per cent), pulp and paper (92 per cent), machinery, transport equipment and precision instruments (91 per cent), raw materials other than agricultural raw materials and fuels (83 per cent), base metals other than iron and steel (81 per cent) and other manufactures (81 per cent).

Duty reductions will affect a smaller percentages of dutiable imports in the following sectors: textiles and clothing (65 per cent), iron and steel (63 per cent), non-tropical agricultural products (49 per cent), tropical products (39 per cent) and fuels (14 per cent).

Information on the depth of the reductions being made in each of these sectors is contained in Table 2.

8. The great majority of the reductions on chemicals, base metals (other than iron and steel), machinery, transport equipment and precision instruments and miscellaneous manufactures, are of 50 per cent or more. In the case of chemicals, the European Economic Community and the United Kingdom will, in general, only put a part of their full reductions into effect unconditionally. The remaining part of their reductions is conditional on the abolition by the United States of the American Selling Price system of valuation. Provisions relating to this transaction are spelled out in the separate Chemicals Agreement referred to above.

The average reductions to be made in the steel sector are relatively low. Given the conditions under which steel products are being traded, however, the agreement reached represents a major achievement.

The average reductions made in the textile sector are also relatively low. In addition, certain of the concessions are related to the continued existence of the Long-Term Arrangement. This is another particularly sensitive sector and the results obtained reflect this fact.

In the case of tropical products a main obstacle to the negotiations has been the inability of the countries concerned, including countries at present receiving tariff preferences from different developed countries to agree on a basis for joint action. The relative lack of success with regard to other agricultural products is partly a reflection of the fact that the tariff is not, for some products, the factor which regulates trade and partly a reflection of the very strong interests which are in play in this area.

In many cases fuels already enter duty free. The very low trade coverage of concessions in this sector is also an indication that special factors affect trade in most of these products which make tariff concessions irrelevant.

9. The GATT secretariat prepared a general survey of tariff reductions made by the six major industrialized participants in the negotiations referred to - namely, the European Economic Community, the United States, the United Kingdom, Japan, Sweden and Switzerland - on selected products of particular export interest to developing countries. The six markets mentioned, account for more than 90 per cent of all imports by the industrial countries from the developing areas. The survey comprised 367 product headings of the Brussels Tariff Nomenclature (of which: agricultural products 79, non-agricultural raw materials 47, fuels 6 and manufactures 235), and close to 10,000 individual items in the six import tariffs. The product headings surveyed cover more than 95 per cent of all exports from developing to developed countries. The details of frequency distribution of duty rates before and after the Kennedy Round can be seen in Table 3.

10. The seventy-nine agricultural product headings, which include both temperate zone and tropical foodstuffs but exclude cereals and most meat and dairy products, covered over 2,000 items in the tariffs of the six major import markets. While 11 per cent of these items were duty free before the Kennedy Round, the proportion has now risen to 19 per cent. The proportion of items dutiable at more than 15 per cent ad valorem has declined from 49 to 38 per cent.

11. The 235 manufactured product headings included slightly less than 7,000 tariff items. The proportion of duty-free items has been raised in the Kennedy Round from 5 to 7 per cent; the category of items dutiable at less than 10 per cent ad valorem now comprises 62 per cent of all items as against 32 per cent before the Kennedy Round. The categories dutiable at more than 15 per cent ad valorem now comprise 14 per cent of all items as against 35 per cent before.

12. Going into sub-divisions, duty reductions on tropical products will mean that 33 per cent of all items in this sector will be accorded duty-free entry as compared to 13 per cent prior to the Kennedy Round. In many instances, previous suspension of duties on tropical products are now consolidated in the GATT concessions. Further, about 36 per cent of the dutiable products will be subject to rates of 10 per cent ad valorem or less, as against 42 per cent at present; while the proportion of items dutiable at more than 10 per cent declines from 42 to 28 per cent.

13. In processed foodstuffs, the proportion of duty-free items rises from 6 to 12 per cent; that of items dutiable at less than 10 per cent, from 25 to 32 per cent; while the proportion dutiable at more than 10 per cent declines from 67 to 54 per cent.

14. In cotton yarns and fabrics, the great majority of reductions have been made on items dutiable up to 10 per cent ad valorem. Tariff items subject to duties within this range now account for 63 per cent of the total as compared to 44 per cent before the Kennedy Round, and the proportion of duty-free items has risen from 2 to 4 per cent. Further, items subject to duties between 10 to 15 per cent and 15 to 20 per cent ad valorem, which accounted for 26 and 16 per cent, respectively, of all items in this group before the Kennedy Round, represent now only 18 and 14 per cent respectively. The share of tariff items dutiable in the range of 20 to 25 per cent will now be 4 per cent as compared to 10 per cent previously. Duties exceeding 25 per cent ad valorem are now negligible in this product class. According to an agreement reached in April 1967, the Long-Term Cotton Textile Arrangement was extended for a period of three years as from 1 October 1967. In respect of a number of items, duty reductions by the EEC are tied to the life of this Arrangement.

15. In clothing, there were and are no duty-free items. However, items dutiable at less than 10 per cent will represent 12 per cent of the total as against 4.5 per cent at present; and 32 per cent of all items will be dutiable in the range of 10 to 15 per cent as against only 5.5 per cent at present. Before the Kennedy Round 53.5 per cent of all items in the group were dutiable at more than 20 per cent ad valorem; this proportion will now decline to 29.5 per cent.

16. In leather and leather manufactures (excluding footwear) of interest to developing countries, tariff items in the duty range of 0 to 5 per cent, accounting for 7 per cent of all items in this product class before the Kennedy Round, now represents 32 per cent. On the other hand, the proportion of items dutiable at more than 10 per cent has been reduced from 61 to 28 per cent of all items.

17. In footwear, the proportion of items dutiable at less than 10 per cent rises from 16 to 65 per cent.

18. In wood manufactures, including plywood and veneer, the proportion of items in the category of 0 to 10 per cent ad valorem duties rises from 28 to 72 per cent.

19. In miscellaneous manufactures of export interest to developing countries, mainly articles of cork, plaiting materials, basket work, artificial flowers, furniture, toys and sports goods, the proportion of items in the 0 to 10 per cent duty category has been increased from 25 to 66 per cent, while that of items dutiable at more than 20 per cent has been reduced from 25 to 7 per cent.

Table 1

ALL PRODUCTS<sup>a</sup>

(thousand million dollars)

	Pre-Kennedy Round duties, ad valorem					
	Up to 5%	Over 5% up to 15%	Over 15% up to 25%	Over 25% up to 35%	Over 35%	Total
<u>Total</u>	<u>6.8</u>	<u>20.3</u>	<u>7.2</u>	<u>1.4</u>	<u>1.3</u>	<u>59.7</u>
Already duty-free						22.7
Dutiable	6.8	20.3	7.2	1.4	1.3	57.0
Subject to reduction of which:	3.4	15.6	5.3	1.1	0.3	25.7
up to 20%	0.2	2.6	1.1	0.3	-	4.2
over 20%, up to 50%	0.2	2.7	1.4	0.2	0.1	4.6
50%	1.4	9.8	2.7	0.4	0.1	14.4
over 50%	1.6	0.5	0.1	0.2	0.1	2.5
No reduction	3.4	4.7	1.9	0.3	1.0	11.3

<sup>a</sup>Excluding cereals, meat and dairy products.

MORE

TABLE 2

(thousand million dollars and per cent)

	Tropical products		Other agricultural products*		Fuels		Other raw materials		Iron and steel	
	\$	%	\$	%	\$	%	\$	%	\$	%
Total	4.8		6.3		9.1		10.2		2.0	
- Already duty-free	2.2		1.4		5.3		8.5		0.1	
- of which bound in the negotiation	0.2		0.2		3.0		1.8		-	
- Dutiable	2.6	100	4.9	100	3.8	100	1.7	100	1.9	100
- of which no reduction	1.5	58	2.4	49	3.2	84	0.3	18	0.7	37
- of which subject to reduction	1.1	42	2.5	51	0.6	16	1.4	82	1.2	63
- up to 20%	0.54	49	0.67	27	0.02	3	0.05	4	0.60	50
- over 20% to less than 50%	0.19	17	0.26	10	0.05	8	0.04	3	0.33	28
- 50%	0.13	12	1.27	50	0.54	89	0.48	34	0.22	19
- over 50% to less than 100%	0.09	3	0.05	2	-	-	0.03	2	-	-
- 100%	0.16	14	0.27	11	-	-	0.80	57	0.03	3

\* Excluding cereals, meat and dairy products.

TABLE 2 (cont'd)  
(thousand million dollars and per cent)

	Other base metals		Chemicals		Pulp and paper		Machinery, trans. equip., precis. instr.		Textiles and clothing		Other manufact.		Total*	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Total	3.7		3.6		2.5		10.2		2.7		4.6		59.7	
- Already duty-free	1.1		0.8		1.3		0.4		0.1		1.5		22.7	
- of which bound in the negotiation	0.1		0.3		-		0.1		-		0.5		6.2	
- Dutiable	2.6	100	2.8	100	1.2	100	9.8	100	2.6	100	3.1	100	37.0	100
- of which no reduction	0.5	19	0.2	7	0.1	8	0.9	9	0.9	35	0.6	19	11.3	31
of which subject to reduction	2.1	81 100	2.6	93 100	1.1	92 100	8.9	91 100	1.3	65 100	2.5	81 100	25.7	69 100
- up to 20%	0.36	17	0.13	5	0.10	9	0.67	7	0.75	44	0.29	12	4.18	16
- over 20% to less than 50%	0.42	20	0.25	10	0.45	41	1.78	20	0.46	27	0.39	16	4.60	18
- 50%	1.13	55	1.94	75	0.30	27	6.32	71	0.33	19	1.73	70	14.39	56
- over 50% to less than 100%	-	-	0.27	10	-	-	0.14	2	-	-	0.01	-	0.59	2
- 100%	0.17	8	0.01	-	0.26	23	-	-	0.16	10	0.05	2	1.91	8

\* Excluding cereals, meat and dairy products.

TABLE 3

FREQUENCY DISTRIBUTION OF DUTY RATES ON PRODUCTS OF  
INTEREST TO THE DEVELOPING COUNTRIES BEFORE AND AFTER  
THE KENNEDY ROUND IN THE MAJOR DEVELOPED COUNTRIES COMBINED

(percentages)

Duty range Commodity class		Free	0.1 -5	5.1 -10	10.1 -15	15.1 -20	20.1 -25	25.1 -30	30.1 -35	Above 35	N.A.
I.	Agricultural products										
(1)	Agricultural products n.e.s. excluding cereals, meats and dairy products	Pre-KR	19	17	22	16	16	5	2	1	1
		Post-KR	25	19	21	16	11	4	1	1	1
(2)	Processed foodstuffs	Pre-KR	6	10	15	11	19	23	6	5	3
		Post-KR	12	13	19	11	18	17	3	3	2
(3)	Beverages and tobacco <sup>1</sup>	Pre-KR	5	2	2	6	9	9	12	5	48
		Post-KR	6	5	5	9	8	7	18	3	37
(4)	Tropical products	Pre-KR	13	20	22	11	13	9	3	3	3
		Post-KR	33	16	20	11	9	3	2	1	2
II.	Raw materials	Pre-KR	50	19	16	5	4	2	1	0	1
		Post-KR	61	23	10	2	2	0.5	0	0	0.5
III.	Fuels	Pre-KR	28	25	25	15	4	1	0	0	1
		Post-KR	31	39	17	8	2	1	0	0	1
IV.	Manufactures and semi- manufactures										
(1)	Inorganic and organic chemicals	Pre-KR	12	9	19	30	18	6	2	3	1
		Post-KR	14	29	45	10	2	0	0	0	0
(2)	Chemical products	Pre-KR	7	7	17	30	23	6	2	1	7
		Post-KR	9	18	55	11	2	0	5	0	0
(3)	Pulp and paper	Pre-KR	13	11	30	27	15	1	2	1	0
		Post-KR	20	28	26	21	4	1	0	0	0

TABLE 3 (cont'd)

Duty range		Free	0.1 -5	5.1 -10	10.1 -15	15.1 -20	20.1 -25	25.1 -30	30.1 -35	Above 35	N.A.
Commodity Class											
(4)	Iron and steel	Pre-KR	4	12	47	28	6	2	1	0	0
		Post-KR	7	21	61	8	2	0	0	0	1
(5)	Iron and steel products	Pre-KR	5	6	31	33	14	3	1	1	4
		Post-KR	10	15	52	15	4	1	0	0	2
(6)	Non-ferrous metals and products	Pre-KR	12	14	36	14	11	5	3	2	2
		Post-KR	14	27	41	11	4	2	0	0	0.5
(7)	Cotton yarns <sup>1</sup> and fabrics	Pre-KR	2	13	29	26	16	10.5	3	0	0
		Post-KR	4	18	41	18	14.5	4			0.5
(8)	Clothing	Pre-KR	0	0.5	4	5.5	36.5	29.5	8.5	5.5	10
		Post-KR	0	0.5	11.5	32	36.5	11.5	2	1.5	4.5
(9)	Other textiles	Pre-KR	1.5	3	11	17	29	17.5	7	5	9
		Post-KR	2	7.0	30	27.5	21	7	2	1.5	2.0
(10)	Machinery	Pre-KR	0	6	26	43	12	8	1	1	3
		Post-KR	2	24	51	18	3	2	0	0	0
(11)	Transport equipment	Pre-KR	2	3	30	28	12	17	6	1	0
		Post-KR	4	27	40	18	5	5	0	0	0
(12)	Leather and leather manufactures	Pre-KR	3	4	32	24	23	5	2	3	4
		Post-KR	6	26	40	13	11	3	0.5	0	0.5
(13)	Footwear <sup>1</sup>	Pre-KR	0	2	14	33	40	4	7	0	0
		Post-KR	0	11	54	8	20	7	0	0	0
(14)	Wood manufactures	Pre-KR	3	3	22	43	21	1	2	0	5
		Post-KR	4	20	48	18	7	0	2	0	1
(15)	Articles of stone, ceramic products, glass and glassware, precious stones and metals	Pre-KR	10	10	23	19	12	11	5	4	6
		Post-KR	12	24	31	17	8	5	1	1	1

TABLE 3 (cont'd)

Duty range Commodity Class		Free	0.1 -5	5.1 -10	10.1 -15	15.1 -20	20.1 -25	25.1 -30	30.1 -35	Above 35	N.A.
(16) Precision instruments and apparatus	Pre-KR	2	3	7	47	20	6	4	3	7	1
	Post-KR	2	8	31	33	21	4	0	0	0	1
(17) Other manufactures	Pre-KR	5	4	16	21	29	10	5	5	5	0
	Post-KR	7	16	43	16	11	3	2	1	1	0

<sup>1</sup>Excluding United Kingdom for which ad valorem incidences of a number of specific duties falling under this category could not be calculated.

Note: The results for individual countries were weighted according to the country's share in the combined trade of the major developed countries. The weights used are as follows: EEC 0.38, United States 0.30, United Kingdom 0.11, Japan 0.11, Sweden 0.05, Switzerland 0.05.

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**JOHN F. KENNEDY INSTITUTE**

**Center for Atlantic Studies**

**ATLANTIC RELATIONS  
AFTER THE KENNEDY ROUND**

**LES RELATIONS ATLANTIQUES  
APRÈS LE KENNEDY ROUND**

**Report of the International Colloquium on Problems and Prospects of the Kennedy Round,  
December 14-16, 1967, Tilburg, the Netherlands**

**Rapport du Colloque International sur le Kennedy Round, tenu le 14-16 décembre 1967  
à Tilburg, Pays-Bas**

JOHN F. KENNEDY INSTITUTE  
Center for Atlantic Studies  
Hogeschoollaan 225  
Tilburg, the Netherlands

Economic Relations after the Kennedy Round  
(ed., Frans A.M. Alting von Geusau)  
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## Preface

On December 14 - 16, 1967 the John F. Kennedy Institute organized an international Colloquium on problems and prospects of the Kennedy Round. The Colloquium was sponsored by the Bernard van Leer Foundation. The Atlantic Institute in Paris cooperated in its organization.

The distinguishing feature of this Colloquium was that the participants included university specialists, government officials, officials from international and European organizations, politicians and business representatives. It is the discussion between specialists and those engaged in political and business affairs - with a view to making research more policy-oriented and to enabling politicians and businessmen to make more extensive use of basic research - which constituted the special value of this Colloquium.

The proceedings of the Colloquium were in strict confidence. After a brief plenary session the Colloquium divided into three discussion groups. On the third and final day participants reviewed the report which follows on these pages. The Colloquium comprised about fifty eminent people drawn from different countries in America and Eastern and Western Europe. A series of papers was prepared to provide background for the discussions.

The Report reflects ideas generally acceptable to the participants. However, no one signed it and it should not be assumed that every participant subscribed to every statement.

## RAPPORT FINAL

Président: le Professeur Frans A.M. Alting von Geusau,  
Directeur de l'Institut John F. Kennedy, Tilburg.

Rapporteur-Général: Pierre Uri, Directeur de l'Institut  
Atlantique, Paris.

La conférence consacrée aux relations atlantiques après la négociation Kennedy a travaillé sur la base de rapports évaluant les méthodes et les résultats de la négociation menée au GATT et suggérant des formules diverses pour l'avenir.

Répartie en 3 groupes de discussion elle s'est concentrée sur 5 thèmes principaux.

- I. Les techniques des négociations pour les tarifs ou les obstacles non-tarifaires
- II. L'Agriculture
- III. Les pays en développement
- IV. Les pays socialistes
- V. Le cadre institutionnel

On trouvera ci-dessous un résumé très succinct des principales idées énoncées:

### I. Les techniques de négociation

Le principe de la réduction linéaire a constitué un progrès majeur. A la limite, elle élimine les considérations de réciprocité. En tout cas, la réciprocité est appréciée en termes d'avantages globaux, plus que de

volumes des ventes affectées par les réductions de droits. Le succès a été dû à l'élimination des tarifs inutilement gonflés. Il reste encore de la marge pour certaines méthodes automatiques, mais on risque que les exceptions deviennent plus nombreuses que l'application des règles.

Deux tâches essentielles seraient à accomplir: l'une sur la structure des tarifs, d'autant plus protecteurs qu'ils sont plus différenciés; l'autre sur les critères qui justifieraient des exceptions, notamment pour le développement d'industries nouvelles derrière une protection limitée dans le temps.

Commencer maintenant permettrait d'entretenir le mouvement et de prévenir un retour offensif du protectionisme, mais on ne peut aujourd'hui évaluer l'effet de réductions de droits et qui s'étaleront sur 5 ans.

Des progrès peuvent être accomplis sur un bon nombre de secteurs, mais ils iront de pair avec la définition de politiques industrielles dans ces domaines, et il faut traiter plusieurs secteurs à la fois pour assurer économiquement des avantages compensés.

Faut-il traiter immédiatement les obstacles non-tarifaires? Il n'y a pas de méthode systématique pour des choses aussi diverses que les achats gouvernementaux, les secrets de la défense, les pratiques restrictives, la complication des spécifications nationales qui rompent l'unité du marché et empêchent la production de masse.

A mesure que les échanges sont plus libres, il devient plus nécessaire d'établir des règles de concurrence, de discuter en commun des programmes de rétablissement de l'équilibre dans les balances de paiements, des politiques de stabilisation et de croissance ou que, à défaut d'une pleine concertation, les parties en cause tiennent compte des répercussions de leur action sur les

autres. Il ne s'agit pas d'aller jusqu'aux exigences d'une communauté économique, mais les conditions qui feront des échanges plus libres une contribution décisive à la croissance dépassent la simple réduction tarifaire.

## II. L'Agriculture

La portée très limitée des accords en matière agricole s'explique par les difficultés particulières de ce secteur, aussi bien que par les différences d'approche: la communauté économique s'intéressait aux politiques internes, les pays exportateurs à l'accès aux marchés. On en vient à regretter que l'idée de consolider les montants de soutien ait été écartée: elle considérerait le problème global, et même si elle n'abolissait pas les protections, elle réduisait ou écartait la liberté de les renforcer.

La difficulté majeure tient à ce que les marchés sont limités; les techniques employées pour soutenir le revenu agricole sont coûteuses pour les budgets ou pour les consommateurs ou pour les deux, et notamment le soutien des prix comprime la demande.

Une vraie politique agricole comporte une vue des besoins mondiaux, sous peine d'éliminer des productions qui, à l'échelle mondiale, comptent encore parmi les plus efficaces. L'Elargissement des marchés bénéficierait de méthode renouvelée d'aide alimentaire, et de la décision de produire pour les besoins et non d'avoir des surplus accidentels dus aux déséquilibres des prix. Il faut aussi une décision sur le rythme de diminution de l'emploi agricole, et sur les méthodes appropriées pour faciliter la reconversion.

### III. Les pays en développement

La situation particulière de ces pays a été pleinement reconnue par l'UNCTAD et l'idée de non-réciprocité a été acceptée dans la négociation Kennedy. Toutefois, ces pays n'ont obtenu que des résultats décevants, faute d'avoir su choisir entre le plein bénéfice de la clause de la nation la plus favorisée et la revendication de préférences et aussi parce qu'en l'absence de réciprocité, les pays industrialisés ont limité dans les faits les concessions qu'appelait le principe.

Les préférences généralisées n'apporteront une contribution substantielle que si elles ne sont pas encombrées de régimes spéciaux et d'exceptions et si elles portent effectivement sur des produits qui intéressent les pays en développement.

Elles soulèvent le problème des pays les moins avancés, qui a été reconnu dans la réunion d'Alger ou dans l'association latino-américaine de libre-commerce, mais une discrimination est difficile à administrer. Les produits peuvent être trop chers, malgré les préférences, pour concurrencer les producteurs nationaux des pays importateurs; dans d'autres cas, ils sont au contraire très compétitifs, mais loin que les pays industrialisés accordent de préférences là où ils sont eux-mêmes vulnérables, ils limitent les baisses de droits dans l'application de la clause de la nation la plus favorisée.

Un plan d'action plus efficace appellerait une application honnête des baisses de droits pour favoriser l'accès au marché des produits les plus compétitifs; une révision de la structure des tarifs pour abaisser, notamment à l'égard des pays en développement, la protection

sur les demi-produits où elle est très élevée par rapport à la valeur ajoutée; des préférences réciproques et des groupements régionaux entre pays sous-développés, qui pour devenir compétitifs doivent accepter que leur protection soit décroissante, le droit de subventionner les exportations nouvelles en taxant les importations ou les exportations traditionnelles.

Ainsi la politique commerciale cesserait de contredire l'aide au développement; mais elle doit être concertée entre les pays industrialisés pour diluer l'impact, et étalée dans le temps pour permettre un réemploi plus productif.

#### IV. Les pays socialistes

Entre l'est et l'ouest, et notamment en Europe, le commerce s'est moins développé que la production.

La Tchécoslovaquie, membre originaire du GATT, mais dont la situation a été modifiée après 1948, n'a pas tiré d'avantages substantiels de la négociation Kennedy. La Pologne, qui vient d'accéder au GATT, a obtenu une solution pragmatique, où elle paie par un accroissement aussi régulier que possible de ses importations en provenance de l'ouest l'élimination progressive des restrictions quantitatives à son encontre. Cette formule ne prétend pas fournir le modèle d'une solution générale. Elle pourra éventuellement être dépassée en liaison avec les transformations dans les systèmes de prix appliqués par les pays de l'est.

Si le régime de propriété ou le principe du plan ne font pas obstacle au développement du commerce, en revanche certaines modalités de planification ou cer-

taines modes de fixation de prix peuvent soulever des difficultés pour viser les bases des échanges ou les rendre multi-latéraux. La transformation des prix pour tenir compte de la demande et des coûts et pour accepter la concurrence est inégalement avancée dans les différents pays socialistes et exige des ajustements difficiles. S'ils sont prêts à un commerce multilatéral avec les pays de l'ouest, le multilatéralisme dans l'autre sens suppose que les transformations des systèmes des prix aient avancé à un point comparable dans tous les pays de l'est.

Tant que les décisions d'importation restent relativement centralisés à l'est, les pays de l'ouest savent mal au nom de quel critère les achats sont acceptés ou refusés.

Tant que les pays de l'est craignent des embargos ou manquent de devises, ils restent prêts à payer entr'eux des prix plus élevés ou discriminatoires, et restent attachés aux possibilités de développements stables et réguliers des échanges.

Ils ne se sentent pas en mesure de prendre des engagements unilatéraux d'aide ou d'importation à l'égard des pays en développement.

Enfin la situation politique arrête certains changements de législation aux Etats-Unis malgré l'intérêt qui s'y manifeste pour un accroissement des relations commerciales avec l'est.

## V. Le cadre institutionnel

Si l'existence de la CEE a provoqué la négociation Kennedy, si son pouvoir de négociation a dégelé des positions tarifaires américaines qui résistaient depuis

20 ans, si elle a amené certains de ses membres à un abaissement massif de ce qu'était auparavant leur protection, elle a en revanche alourdi, par la lourdeur de sa procédure interne, la procédure au GATT.

Le GATT a su évoluer, à faire preuve de flexibilité, il peut poursuivre dans cette voie si les parties contractantes en ont la volonté. Dans son cadre présent, et pour les nouvelles tâches à accomplir, il apparaît trop étroit, par la limitation du nombre des pays socialistes qui y figurent et dont le cas se règle par des exceptions à ses principes, inadapté pour les pays en développement, pour lesquels il faut définir une stratégie de croissance, polarisé sur un seul aspect pour les pays industrialisés de l'ouest eux-mêmes sans pouvoir traiter des problèmes de politique économique et monétaire désormais inséparables de la libération des échanges. L'OECD a une compétence large dans tous ces domaines mais ne rassemble que les pays dit atlantiques. La Commission Economique pour l'Europe groupe tous les pays européens et les Etats-Unis; à ce titre, elle peut être un utile forum de discussion pour les relations commerciales est-ouest. En matière agricole, la FAO a une compétence particulière, et de même que dans l'UNCTAD les pays consommateurs y sont dûment représentés.

L'UNCTAD comprend plus de pays que le GATT, et notamment le Mexique ou le Vénézuéla mais surtout l'Union Soviétique est un cadre plus favorable aux pays en développement, mais ne peut sanctionner aucune obligation, alors que le GATT dispose de moyens de décision. A la longue la coexistence des deux institutions supposerait une délimitation plus nette de leurs compétences et activités respectives.

Dans les relations atlantiques, la position qui sera reconnue à la Grande-Bretagne, son admission ou son rejet par la Communauté Economique est décisive: tout est bloqué par cette incertitude.

Une zone de libre-échange atlantique serait une relance dans la voie du libre-échange mais, risquant d'arrêter les progrès britanniques dans les industries de pointe, elle compromettrait la marche européenne vers l'unité et discriminerait à la fois contre le marché commun et contre les pays en développement.

Le Conseil de l'Atlantique Nord vient au contraire de sousentendre l'idée du partnership en appelant l'Europe à se grouper pour accroître son influence dans l'alliance.

## FINAL REPORT

Chairman: Prof. Frans A.M. Alting von Geusau,  
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burg.

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The Conference on Atlantic relations after the Kennedy Round of trade talks worked on the basis of reports evaluating the methods and results of the negotiations, carried on in GATT, and suggesting different possibilities for the future.

Dividing into three discussion groups, the Conference focussed on five main themes.

- I. Negotiating techniques for tariffs or non-tariff obstacles to trade
- II. Agriculture
- III. Developing Countries
- IV. Socialist Countries
- V. The institutional framework

The following is a very succinct summary of the main ideas put forward:

### I. The techniques employed in the negotiations

The principle of a linear reduction has proved a major advance. In its most rigorous applications, it eliminates bargaining for reciprocity. Even short of

this, reciprocity is judged in terms of overall advantage rather than of the differing volumes of sales affected by cuts in duties. Success has been due to the elimination of unnecessarily inflated tariffs. There is still room to define criteria for automatic cuts, but exceptional cases risk being more numerous in future than those to which rules apply.

Two essential tasks now need to be achieved: one on the structure of tariffs, the protective effects of which increase in proportion to the differences of level between duties in a single tariff; the other on the criteria which might justify exceptions, notably for the development of infant industries behind barriers limited in time.

To begin now would help to maintain momentum and forestall any protectionist backlash, but it is impossible today to evaluate the effect of coming, agreed cuts in duties spread over five years.

Progress can be made in a number of sectors, but will need to go hand in hand with the formulation of industrial policies in these areas, and it will be necessary to deal with several sectors at a time to give more scope for a balance of economic advantage in any deals.

Must non-tariff obstacles be tackled straight away? No systematic approach is possible for problems as diverse as those of government procurement, defence secrets, restrictive practices, and the complex national specifications which break the unity of the market and prevent mass production.

The freer trade becomes the more it will be necessary to establish rules of competition, to work out in common programmes for reestablishing the international

balance of payments, and policies of stabilisation and growth, or - if full cooperation is impossible - to see that the various parties take account of the repercussions of their acts on each other. This cannot go as far as the adoption of the disciplines of a fully-fledged economic community. Nevertheless, policies for making free trade contribute powerfully to growth call for more than tariff cuts.

## II. Agriculture

The very limited scope of the agreements on agriculture is due to the special difficulties of this sector, as well as to national differences of approach: the European Community concentrated on internal policies, the exporting countries on access to markets. One is driven to regret that the idea of consolidating the montants de soutien was rejected: it took account of the general nature of the problem, and even if it did not eliminate protective barriers, it did reduce or abolish freedom to increase them.

The major difficulty is that markets are limited; the techniques used to support farm revenues are expensive for national budgets or for consumers or for both, and price supports in particular depress demand.

A real farm policy calls for a view of world needs. Failing this, productive capacities may be eliminated which, at the world level, are still amongst the most efficient. The widening of markets would be facilitated by new methods of food aid and by production to meet needs, replacing accidental surpluses due to price distortions. Decisions are also necessary on the rate of fall of the farm labour force, and on the best methods.

of helping to reconvert resources.

### III. Developing Countries

The special position of these countries has been fully acknowledged by the UNCTAD and the idea of non-reciprocity accepted in the Kennedy Round negotiations. However, the results for these countries have been disappointing, since they failed to choose between aiming either for the full benefits of the most favoured nation clause or for preferences; and also because, in the absence of reciprocity, the industrialised countries limited in practice the concessions called for in principle.

Generalised preferences will make a substantial contribution only if exceptions and special regimes do not limit them and if they effectively apply to products of interest to the developing countries. They raise the problem of the least advanced countries, which was recognised at the Algiers conference and in Latin American Free Trade Association, though such exceptions will be hard to administer. Developing countries' products can be too expensive, despite preferences, to compete with the national produce of importing countries; in other cases, they are, on the contrary, very competitive, but far from the industrial countries granting preferences in sectors where they are themselves vulnerable, they limit tariff cuts resulting from the application of the most favoured nation clause.

A more effective plan of action would be to apply tariff cuts honestly to help provide access to markets for the most competitive products; to change the structure of tariffs, with developing countries particularly in view, by lowering the protection on semi-

products which is very high in relation to the value added in manufacture; to encourage reciprocal preferences and regional groupings between developing countries which must adopt diminishing protective barriers in order to become competitive; and to endorse the right to subsidize new exports by taxing imports or traditional exports.

Developed along these lines trade policies would stop working against aid policies. But they would have to be concerted between the industrial countries to dilute the impact, and be spread over time to permit a more productive redeployment of resources.

#### IV. Socialist Countries

The growth of trade between East and West, notably in Europe has lagged behind that of production.

Czechoslovakia, a founder member of the GATT, but whose situation changed after 1948, has not won substantial advantages from the Kennedy Round negotiations. Poland, which has just joined GATT, has reached a pragmatic solution, by which it pays for the gradual elimination of quota restrictions on its exports to the West by an increase, as regular as possible, of its imports from the West. This formula has no claims to constituting a precedent. It could possibly be improved upon as developments change the systems of prices applied by the Eastern states.

Though the system of ownership or the principle of the plan do not in themselves constitute an obstacle to the growth of trade, certain aspects of planning and certain ways of forming prices can raise difficulties to reforms of the basis of trade and to

multilateral exchanges. The transformation of prices to take account of demand and costs and to open the way to competition has progressed at different speeds in the different socialist countries and raises difficult problems of adjustment. If the countries of Eastern Europe are ready to undertake multilateral trade with Western countries, multilateralism inside Eastern Europe itself requires that changes in price systems should reach a comparable stage in all the Eastern countries.

So long as import decisions remain relatively centralised in the East, Western countries find it hard to know on what criteria purchases are being accepted or refused.

So long as the Eastern countries fear embargos or lack foreign currency, they remain ready to pay higher or even discriminatory prices among themselves and give weight to the advantages of the stable and regular growth of exchanges.

They do not consider themselves able to undertake firm multilateral commitments of aid or of imports towards the developing countries.

Finally, the political situation holds up certain legislative changes in the United States despite the interest there in an increase in trade with the East.

## V. The Institutional Framework

The establishment of the European Community gave the initial impetus to the Kennedy Round; its bargaining power has thawed American tariffs which had remained frozen for twenty years; and its existence induced some of its members to accept massive cuts in their previous levels of protection. On the other hand, it has,

by the clumsiness of its internal procedures, weighed down those of the GATT.

GATT has changed with the times and proved adaptable and can continue to advance along present lines if the contracting parties wish it to do so. But in its present framework, and in view of the new tasks it will have to accomplish, it seems too narrow. Too few socialist countries take part in it and their problems have to be settled by exceptions to its principles; it is not appropriate for the developing countries for whom strategies of growth have to be defined; and as far as the industrialised Western countries themselves are concerned, it concentrates on one aspect only without being empowered to deal with the problems of economic and monetary policy henceforth inseparable from the freeing of trade.

The OECD has wide possibilities in all these fields but is composed only of the so-called Atlantic powers. The European Economic Commission includes all the European countries and the United States and can be a useful forum for discussing East/West trade relations. In agriculture, FAO has special responsibilities and the consumer countries are duly represented in it, as in the UNCTAD.

The UNCTAD has more member countries than GATT, notably Mexico, Venezuela and above all the Soviet Union, and is a more favourable framework for the developing countries, but cannot give teeth to any obligations whereas GATT has means of decision. In the long run, the coexistence of the two institutions calls for a clearer definition of their respective areas of competence and activity.

In Atlantic relations, the admission or rejection of Britain's candidature to the Common Market is the

key: all other action is held up by lack of certainty on this issue.

An Atlantic Free Trade Area would generate new progress to free trade but it would risk halting British progress in the growth industries, it would endanger the movement towards European integration and it would discriminate both against the Common Market and the developing countries.

The North Atlantic Treaty Council has, on the contrary, recently implied the idea of partnership by calling on the European countries to group together to increase Europe's influence in the alliance.

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NEGOTIATING TECHNIQUES AND ISSUES  
IN THE KENNEDY ROUND

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## Negotiating Techniques and issues in the Kennedy Round

In this paper we intend to concentrate attention on the negotiating techniques in the Kennedy Round of trade negotiations which mark an apotheosis in the process of international trade co-operation over the last two decades.

First we have distinguished between the negotiating issues in industry and agriculture.

In industry we focus attention on:

1. the across-the-board approach;
2. the disparity issue;
3. the list of exceptions;
4. the non-tariff barriers.

In agriculture we highlight:

1. the EEC proposal of "montant de soutien";
2. the American objections;
3. the EEC reply and the American condition of "access to markets",
4. the crisis;
5. the EEC-offer.

Finally we deal with the problems of countries with a special economic or trade structure and the final period of the negotiations.

### 1). An across-the-board approach

The Ministerial meeting of GATT ministers in May 1963 laid down directives which provided for the reduction of tariffs and other barriers to trade.

The Ministers agreed inter alia:

1. to hold comprehensive trade negotiations starting in 1964, with the widest possible participation;
2. that the negotiations should cover all classes of products, including agricultural and primary products; and should deal with both tariff and non-tariff barriers;
3. that the tariff negotiations should be based upon a plan of substantial linear, across-the-board tariff reductions, with a bare minimum of exceptions, which should be subject to confrontation and justification;
4. that the trade negotiations should provide for acceptable con-

- ditions of access to world markets for agricultural products;
5. that there was a problem for certain countries with a special economic or trade structure such that equal linear tariff reductions may not provide an adequate balance of advantages;
  6. that every effort shall be made to reduce barriers to exports of the less-developed countries, but that the developed countries cannot expect to receive reciprocity from the less-developed countries<sup>\*)</sup>.

In preliminary discussions during this GATT session between EEC and the United States it became evident that the traditional item-by-item technique of bargaining no longer was adequate for achieving a significant liberalization of world trade. In former tariff negotiating conferences held under the General Agreement (in 1947 Geneva; 1949 Annecy, France; 1951 Torquay, England, 1956 Geneva and 1960-1961 the "Dillon Round" Geneva), the countries, negotiating the reduction of their tariffs, negotiated on a commodity-by-commodity and country-by-country basis. This method, sometimes known as the "traditional technique" tended to limit both the scope of the negotiations and the depth of the average cut. Next reasons for the adoption of a new negotiating technique can be mentioned:

1. The nature and structure of the EEC was badly adapted to item-by-item and country-by-country negotiation, because when the Community had offered a 20 per cent across-the-board tariff reduction in the Dillon Round, this offer was understandably interpreted to mean that the Six, themselves, were unwilling to try to negotiate in any other way. The Community itself strengthened this conviction when it officially welcomed President Kennedy's request to Congress for authority to permit him to engage in linear (across-the-board) negotiations.
2. The traditional method of negotiating tariffs had become increasingly unproductive:
  - a. It had led to the exclusion of tariff offers on products of which no important negotiating partner was the predo-

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<sup>\*)</sup> The problems on the participation of less-developed countries are dealt with in a separate paper.

minant supplier.

b. It had led to the overzealous screening of offer-lists to eliminate "sensitive" items and to tariff reductions so small as to be worthless in some cases.

Because of these tendencies, the impression had been growing for some time that the only tariff reductions which had been offered in recent negotiations were those of no practical importance, and that only by some new technique could the hard core of tariff cuts, that would really increase trade, be blasted loose.

3. Furthermore, by 1962, one condition favoring the item-by-item negotiating method had disappeared. The membership of the GATT was now so nearly universal, at least among countries normally accorded to most-favored-nation treatment, that the leakage of unrequited benefits to non participants would be minimal in a general tariff reduction.

Under an across-the-board technique, there is a presumption that the duty on every item is to be reduced. Opponents to a cut on a particular item must show why a cut should not be made. With the item-by-item technique, on the other hand, the burden tends to be on the proponents of a duty reduction for a particular item to show why any reduction at all should be made. The same distinction holds with respect to the depth of the cut. Reductions under a linear approach are either equal for all items or else follow some simple rule. There is no presumption under the item-by-item technique, however, that the depth of the cut will be, for example, the maximum permitted by law. It would be necessary, in this case, for the proponents of such a duty cut to show why the cut should not be less. Furthermore, when one country excluded important items in a particular industry, other participants tended for bargaining reasons, to exclude their significant import items in the same industry. The outcome was that the recent negotiations tended to be confined to those items about which there was no significant import-competition problem in any country and, therefore, in which no one was especially interested. The negotiations also tended to become more concerned with giving up as little as possible in return for as much as

possible than with seeking a mutually beneficial tariff reduction. It was obvious that a broad, deep tariff-cutting exercise would be severely handicapped by the item-by-item technique.

Although the Kennedy Round of negotiations is still referred to, with some reason as "linear", the truth is however, that traditional techniques have returned to dominate major areas of what had been conceived as a virtually automatic operation.

As causes of the erosion of the linear reductions we can mention:

1. The provision in the Trade Expansion Act requiring the President to withhold some items from the negotiations. This breach was, of course, inevitable. Other major negotiating partners would have insisted upon the right to exclude sensitive items even if the U.S. delegation had not: the problem of exceptions.
2. The decision accepted by the United States negotiations only after a stubborn but hopeless fight, to exclude all agricultural products from the uniform tariff cuts. Any liberalization of trade in agricultural products was to be the subject of bargaining, based on selective offers by each participant.
3. The setback on agricultural products led to a further defection: the problems of countries with a special economic or trade structure.
4. The problem of disparities, which probably contributed much more than any other to the pollution of the atmosphere of the Kennedy Round.

In next pages we shall deal with these erosions of linear reductions more in detail.

## 2. The Disparities issue

Right from the start in preliminary discussions in 1963 the problem of disparities - the existence of highly unequal tariffs for the same products in different countries - has been a source of difficulties. Even during the GATT ministerial meeting in May 1963 this was the point on which the talks almost broke down.

The European Economic Community did not favor a 50 per cent across the board cut. It proposed under strong French pressure a plan based on the concept of *écrêtement* i.e. "depeaking".

Under this plan tariffs should be broken down in the direction of a harmonized tariff. Duties on manufactured goods were to be reduced by 50 per cent of the difference between their existing levels and 10 per cent. Duties on semimanufacturers and raw materials were to be cut 50 per cent of the difference between the existing rate and 5 per cent and zero, respectively.

The United States strongly opposed the *écrêtement* notion on the grounds:

- a. that it would not produce a significant average reduction in tariffs. Even before taking into consideration any exceptions, the formula gives an average reduction for the main trading countries of only around 15 per cent.
- b. the average United States cut would be substantially greater than the Community's average reduction. This is because the Common External Tariff of the EEC was formed by averaging member countries' rates, a procedure that resulted in a concentration of tariffs in the 10 to 15 percent range. These tariffs would be reduced very little under the *écrêtement* role.

In view of the desire to achieve a duty reduction averaging as close to 50 per cent as possible and the obvious unacceptability of any plan that reduced United States duties more than those of the Six, the EEC proposal was regarded by the United States as a nonstarter. All the other major trading members of GATT also apposed the EEC scheme.

EEC -i.e. France - however reluctantly acquiesced to the regulation to the effect that there would have to be automatically operating rules to establish the existence of disparities and than to decide which special break-down rules would have to be applied.

The United States delegation insisted that a linear rule be followed in the negotiations and a serious crisis occurred at the ministerial meeting. However, the outcome appeared to be a general acceptance of the United States goal. The Ministerial Resolution of May 1963 stated: "That....the tariff negotiations.... shall be based upon a plan of substantial linear tariff reductions with a bare minimum of exceptions which shall be subject to confrontation and justification. The linear reductions shall be equal". Immediately following this statement, however was an important

qualification: "In those cases where there are significant disparities in tariff levels, the tariff reductions will be based upon special rules of general and automatic application". The chairman elaborated somewhat upon this vague sentence by establishing two interpretations for the record. The first was that the term "significant" meant "meaningful in trade terms", and the second that the purpose of special rules was "to reduce such disparities".

The EEC contended that the existence of large numbers of high duty items in the United States tariff schedule was the major cause of tariff disparities. There are, for example, over 900 items with rates at least 30 per cent, compared to only a handful of such rates in the EEC tariff schedule, even though the average United States and EEC tariffs are roughly the same. According to the Community, these high duties raise three major difficulties for a linear reduction rule:

1. An equal cut in high United States and middle-level EEC rates would increase United States exports to the Community much more than EEC exports to the United States. Cuts in the larger number of low-duty United States items are not worth much in terms of increased exports for the EEC, because those low duties are already only a minor obstacle to trade.
2. An equal cut would increase imports into the EEC from third countries more than such imports into the United States. In other words, exports from third countries would be diverted (in relative terms) from the United States to the EEC.
3. The United States would end up with many more high rates than the Six and thus with greater bargaining power for future trade negotiations with the EEC.

The nub of these arguments is that the over-all elasticity of import demand is less in the United States than in the EEC, because of the relative inelasticity of import demand for the comparatively large number of high-and low-duty items in the United States tariff schedule. In supporting this contention, the EEC pointed out about these high United States duties that they are in effect prohibitive and will remain so even after a 50 per cent reduction. There shall be in other words considerable "water" in the United States tariff.

The U.S. cannot take this argument very seriously. Previous item-by-item negotiations have eliminated almost all of this form of "excessive" protection. For example, the Tariff Commission in recent tariff rounds determined for each item of interest its "peril point", the rate below which imports might seriously threaten particular U.S. industries. Duties were usually reduced to these levels, and sometimes below them. Thus, whatever "water" may have been in the U.S. tariffs should have been largely squeezed out.

At the same time the U.S. cannot see much force in the Community's contention concerning the elasticity of import demand for low-duty United States items. Most low-duty items are primary products or semimanufacturers. On these products, a low duty can be fully as protective as a higher duty on a differentiated manufactured good. However, the argument as presented by EEC seems to confuse the effect of a given percentage tariff cut on the price of the product and the concept of price sensitivity. A 50 per cent cut on a 10 per cent duty item, for example, will decrease the product's price relatively less than a 50 per cent reduction in a 50 per cent tariff. The increase in imports of the product will therefore, be less. But this has nothing to do with differences in elasticities. Since the average EEC and United States duties are about the same, as are the volumes of dutiable imports for the two areas, the smaller increase in imports on low-duty United States items would probably be balanced by the larger import increase on the high-duty United States items.

According to the U.S., there is reason to believe that the elasticity of import demand for nonagricultural goods actually is higher for the United States than for the EEC. The ratio of imports to domestic production is lower in the former than in the Community. This tends to enable foreign exports to increase their market in the United States relatively more with a given tariff cut than the United States exporters increase their sales to the EEC with the same duty reduction. Moreover, consumer goods make up a somewhat larger fraction of total nonagricultural imports in the United States than in the EEC. Since the market elasticity of demand for consumer goods is generally considered greater than that for capital goods or raw materials, this relationship also operates to increase the United States import demand elasticity

relative to that in the EEC.

However, besides the elasticity of demand for imports also the average tariff level, the average volume of trade, and the degree of dispersion of these variables determine the effect of a linear tariff cut on a country's import volume. Estimating the effect of a 50 per cent linear cut on the volume of United States and EEC import trade, Cooper concluded that if agricultural items are excluded from the calculations, United States imports would increase substantially more than those of the EEC, even if import demand elasticities are assumed to be the same. In short, not only did the EEC fail to make a convincing analytical case for the existence of a higher elasticity of import demand in the Community than in the United States, but also available empirical evidence relating to certain other important factors effecting the volume of trade after a tariff cut fails to support the EEC's claims according to the U.S.

#### Identification of disparities

As a first step in the identification of significant disparities attention should be given only to those cases where the "high" rate of duty is not less than a certain minimum percentage and exceeds by at least a certain number of percentage points rates on the same product in the other tariff or tariffs with which the comparison is made. Disparities should only be invoked in respect of high duties in the United States, the EEC and the United Kingdom (the reference countries).

The EEC, however, expressed reservations as to the principle involved in the use of a "seuil" or minimum level below which rates of duty could be disregarded in the context of the disparity rules. Disparities could in their view be significant wherever there was more than a certain spread between two tariffs, whatever the absolute level of the higher tariff and any "seuil" would be entirely arbitrary.

The EEC proposed to use as a working hypothesis 30 per cent for the minimum level and 10 percentage points for the minimum gap. Some delegations, however, felt that a higher rate than 30 per cent should be used for the minimum level. In the view of the United States the appropriate figure for the minimum level

was 60 per cent and the lower duty must be less than one third of the higher duty.

Apart from the U.S., the GATT partners had no serious objections to the 30/10 rule, but they did think that there would have to be additional criteria to diminish further the number of disparities, since by no means all disparities would be "meaningful in terms of trade", according to the 30/10 rule. In this connexion the following suggestions were made as to possible criteria:

1. Disparities should be regarded as significant where there are substantial imports of the product concerned from the high duty country into the low duty country, or, in a variant of this, where the high duty country is the principal supplier to the low duty country; to the extent that the maintenance of bargaining power was a factor in the disparity issue, this was the appropriate criterion;
2. Disparities should not be regarded as significant where there are no, or only negligible, imports into the country with the low duty;
3. Disparities should not be regarded as significant where there are substantial imports into the country with the high duty;
4. Disparities should not be regarded as significant where there is no production (or, in a variant of this, no actual or potential production) in the low duty country;
5. Disparities should not be regarded as significant where the low duty country maintains protective measures not consistent with the General Agreement.

In addition, some members proposed the following provision with regard to the right to invoke tariff disparities:

6. The special rules for tariff reductions in cases of significant disparities should not apply automatically but only if they are invoked by the low duty country; and only a country which is the principal supplier to the country with the high duty can so invoke the rules.

On 23 December 1963 the EEC Ministerial Council has then decided not only to accept some of these additional criteria, but also to propose the replacement of the 30/10 rule by another rule. The EEC proposal of 27-30 January 1964, consisted of two

parts: an arithmetic criterion for identifying disparate items and certain qualitative criteria that modified the arithmetic formula.

Arithmetically, *prima facie* disparities should be regarded as existing wherever:

1. the high rate was at least double the low rate; and
2. in the case of primary products and finished products, there was a gap between the two rates of at least ten percentage points. (the "double-écart" formula).

This would not apply to semi-processed products. The value added on these products was, in most cases, very small; this meant that the protective incidence of the rates on this added value was greater than in the case of other products, and that a disparity of a few percentage points could therefore, be significant.

The Community's rationale for treating semimanufactures differently from manufactured commodities under their disparities proposal (as well as under their harmonization scheme proposed earlier) relates to differences in the domestic value-added component of these two classes of commodities. Suppose for example that the value of a particular semimanufactured item is made up one-half of duty-free raw materials that must be imported and one-half of processing activities, that are carried out domestically. Under these circumstances, a 10 per cent duty on the semi-manufactured product would afford effective protection of 20 per cent to domestic producers of the item. Since other processing countries will have to incur the same raw-material costs, the country with the 10 per cent duty can possess costs on the processing component of the product that are 20 per cent higher (i.e. the *ad valorem* duty multiplied by the reciprocal of the proportion of domestically added value) than those in other processing countries and still match the domestic price of imports from these countries. However, as the proportion of imported materials to the total value of the product declines through additional processing, the magnification in domestic protection given by the 10 per cent duty becomes lower. The less the domestic value-added the higher the degree of effective protection. If one assumes that the proportion of imported materials is higher for semimanufacturers

than for manufactured goods and that duties on raw materials are zero, it follows that a small difference in rates between two countries on semimanufacturers will represent the same difference in effective domestic protection as a larger difference in tariff rates on manufactured commodities\*. Since duties on semimanufactured commodities generally are low, EEC officials felt that the 10-point spread requirement would exclude many meaningful disparities among this class of commodities.

As additional criteria the Community were prepared to accept that disparities provisionally identified by the arithmetic criteria would not be regarded as significant where:

- a. there were no, or only negligible, imports into the country with the low rate, provided that the absence of imports or their low level was not due to the existence of quantitative restrictions or measures with equivalent effect;
- b. there was no production, and no short-term plan for production in the country with the low rate.

As additional principles regarding the invocation of disparities;

\*) An example can illustrate this point.

Semimanufacturers

<u>Country A</u>		<u>Country B</u>	
tariff	10%	tariff	8%
importquote	$\frac{3}{4}$		$\frac{3}{4}$
domestic value added	$\frac{1}{4}$		$\frac{1}{4}$
effective protection: $10 \times \frac{1}{\frac{1}{4}} =$	40%	$\frac{1}{8 \times \frac{1}{4}} =$	32%

Manufactured commodities:

<u>Country A</u>		<u>Country B</u>	
tariff	10%	tariff	6%
importquote	$\frac{1}{2}$		$\frac{1}{2}$
domestic value added	$\frac{1}{2}$		$\frac{1}{2}$
effective protection $10 \times \frac{1}{\frac{1}{2}} =$	20%	$\frac{1}{6 \times \frac{1}{2}} =$	12%

The same difference in effective protection of 20% in both countries between semimanufacturers and manufactured goods, represents a larger difference in tariffs on manufactured goods.

- c. the Community would be prepared to discuss with the high rate country the possibility of not invoking the disparity rule where that country imported substantial amounts from the Community, taking into account all the relevant factors, such as the proportion of imports in domestic consumption.
- d. the community would also be prepared to deal in a pragmatic way by means of bilateral discussions with certain countries in cases where the application of the disparity rule might create a problem for the trade of exporting third countries.

At the meeting of 26 February 1964 of the Trade Negotiations Committee the United States continued to prefer a solution based on the concept of a "seuil" or cut-off rate, and submitted the following two alternative proposals relating to the identification of significant disparities;

Proposal A:

- 1. Prima facie disparities should be regarded as existing wherever the high rate was above 40 per cent ad valorem and where there was a gap between the two rates of at least ten percentage points;
- 2. In addition, the two criteria accepted by the EEC should be used, however, without excluding the existence of quantitative restrictions.

Proposal B:

- 1. The double-écart formula suggested by the EEC should be used for the prima facie identification of disparities subject to the modification that the gap of ten percentage points would apply to all products and not only basic materials and manufactured goods; (without this modification, the disparity rules would automatically involve a reduction of less than 50 per cent in the tariffs of some of the major developed countries on certain semi-processed products of particular interest to less-developed countries).
- 2. This arithmetic formula should be qualified by the two additional criteria accepted by the EEC, and by two further additional automatic criteria:
  - c. Disparities should not be regarded as existing wherever there was a substantial volume of imports into the country with the high duty from any regular supplying country (and not just the country with the low country) it being understood that it might be necessary to exclude cases in which imports

took place under special circumstances, for example, under preferential arrangements.

- d. The second criterion would be designed to exclude from the disparity rules cases where third countries had the main trade interest and should provide that, where a country other than the high rate country was the principle supplier of the low rate country, the low rate country could only invoke a disparity after securing the agreement of its principal supplier.

If these proposals proved unacceptable the U.S. would be prepared, though reluctantly, to accept the double-écart formula proposed by the EEC subject to certain modifications and with additional qualitative criteria.

#### Rules to apply where significant disparities are identified

There are two ways of treating disparities: either the high countries reduce on their disparate items by more than the general linear figure, or else the low countries reduce by less than this figure on the disparities they claim.

Since the United States is limited by law to a 50 per cent reduction, the first procedure would require the linear reduction figure to be less than 50 per cent. It would bring about a lower average cut among the participants than the second method, since the number of disparate items is considerably less than the number of linear items.

The EEC proposed that in cases where significant disparities were identified the rules for tariff reductions should be based on the high rate being reduced by 50 per cent and rates on the same product below this being reduced in accordance with a sliding scale. This scale would be linked to the absolute level of the lower rates and independent of the height of the high rate. The EEC did not have a precise formula, but felt that the average of the reductions to be effected on the lower rate should be about 25 per cent.

In view of the U.S., the average reduction should be larger than 25 per cent.

### The third country problem

In the case where a country with a low duty invoked the disparity rules in order to reduce a duty by less than 50 per cent, the impact of this in terms of trade might not fall primarily or at all on the country with the high duty but on a third country. In particular, in the case of most of the products in respect of which the EEC would be able to invoke the disparity rules in the light of disparities between the U.S. and Community tariffs, most of the Community imports came not from the U.S. but from third countries in particular other European countries. If, therefore the Community made reductions of less than 50 per cent on these products, the main impact would be on those third countries. These would then feel it necessary, in order to restore reciprocity, to make cuts of less than 50 per cent in duties of interest to the Community, and inevitably to one another. This in turn could lead to the withdrawal of part of the offers of the Community and so to a series of chain reactions which would result in the general level of tariff reductions falling far below the 50 per cent objective.

In Geneva watches were discussed by way of an illustration. The duty in the United States on many types of watches is over 50 per cent, where as the duty on comparable items in the EEC is generally below 15 per cent. Moreover, Switzerland, which is the main exporter of watches to both the EEC and the United States, has a duty rate of only about 5 per cent on these items. Therefore, both the EEC (15 per cent) and the Swiss (5 per cent) can claim a disparity against the United States (50 per cent) on watches, and thus reduce their duties by only about 25 per cent instead of the suggested linear figure of 50 per cent. But this smaller cut by Switzerland and the EEC would not hurt the United States, since the latter does not export watches in any significant quantities. However, the 25 per cent (rather than 50 per cent) cut by the EEC would harm the Swiss, who are major exporters to the Community. The Swiss wish to obtain a 50 per cent duty in their export markets, and yet, simply because the United States has a high duty on the item, they are faced with only a 25 per cent duty cut in one of their major export markets.

This illustration of a third country paying the penalty

for the existence of a disparity was not an isolated case. In 60 per cent of the cases where the EEC could claim a disparity under its proposal, some country other than the high-duty reference country was the principal supplier of the product to the Six. This is no accident. The country with the high duty usually does not export a substantial quantity of the product. The main reason it has a high duty is to protect domestic producers who are faced with import substitution. In other words, the EEC formula tends to select those very products for which some third country is the major supplier to the disparity claimers. Therefore most countries felt strongly that every effort must be made to limit the scope of the disparity problem and to keep to a minimum the items to which special rules for tariff reductions would apply.

The United States negotiators claimed that the ministerial statement (disparities must be "meaningful in trade terms") required the exclusion of such cases where some third country was the principal supplier to the low-duty disparity claimer. The EFTA countries wanted an automatic regulation so that if a European country were a "principal supplier" it would not be possible for an EEC country to appeal to the existence of a disparity vis-à-vis the U.S. or the U.K. The Community did agree to deal, on a bilateral item-by-item basis, with European countries who were adversely affected by this third-country problem, but the EEC refused to exclude automatically all cases where the high-duty reference country was not a major supplier of the item. The Six wanted to go no further than to reach a solution by way of consultations.

The United States was prepared to go along with the EEC proposal, provided there were certain modifications in it. The major point in the United States counterproposal was that there must be some rule that automatically excluded the possibility of third countries being seriously hurt by tariff cuts in their major export markets that were less than the linear figure. The reason for this position was the fear of a snowballing effect that would seriously erode the depth of the average cut. United States negotiations knew that only the EEC was really interested in initiating disparity claims, although other nations would insist upon their right to restore the balance of reciprocity on any dispari-

ties invoked against them. Indeed, several of the European Free Trade Association countries had indicated a willingness to wait until the end-of-the-day balancing process before considering the possibility of invoking disparities themselves, provided initial disparity claims by others did not adversely affect their trade prospects to a significant extent. The United States believed that this qualification was not likely to hold under the Community proposal, however. Instead, the smaller EFTA countries and Japan very likely would find many of their important EEC markets much less open than would be the case under a 50 per cent cut. These countries not only had threatened to invoke immediately the very large number of disparities they could claim, but even to exclude certain items from the cutting process in order to counter the restrictive effects of the Community's actions, if in fact the initial EEC claims hurt them seriously. The United States feared that the Six then would use this action as an excuse to pull back even further from an across-the-board offer. Moreover, countermeasures directed against the Community would probably hurt other countries, which in turn also would start withdrawing part of their offers. This could easily set off a chain reaction that would reduce the average cut very significantly. The key to preventing a chain-reaction effect was, in other words, the elimination of most of the third-country problem.

Unfortunately, all attempts to find an acceptable formula to define the limits within which tariff disparities may be invoked to justify an exception from the 50 per cent formula have proved abortive. Because of the non-agreement on the qualitative criteria, i.e. the third country problem, it was impossible to obtain agreement between the EEC and the United States on a general automatic disparities rule. The matter was left for pragmatic settlement on the basis of detailed negotiations covering individual items as part of the final package.

### 3. The list of exceptions.

A novel negotiating approach in the Kennedy Round concerns those items that each linear participant excludes from the general cut.

The Ministerial Resolution of May 1963 states that there should be a bare minimum of exceptions, necessitated by reasons of overriding national interest and that these exceptions should be subject to confrontation and justification for each product on the exceptions list.

Unfortunately, an effective technique for performing this function could not be agreed upon before the start of the actual negotiating process. Each country obviously wanted full sovereignty concerning the determination of its exceptions and did not want any international group set up that might embarrass the country about the size of its exceptions list.

Originally all participants had until 10 September 1964 time to submit their lists of exceptions, to be tabled on the basis of the hypothesis of a 50 per cent linear reduction to GATT. At the request of the U.S. it has been decided to postpone the closing date for this submission from 10 September to 16 November 1964 and to circulate the exceptions lists to all governments participating in the negotiations on the basis of the linear offer.

The United States, the EEC, the U.K. Japan and Finland submitted lists of products excepted from the linear rule; Austria Denmark, Norway, Sweden and Switzerland declared that, subject to receiving reciprocal concessions, they would not claim any exceptions.

As regards the length of the lists of exceptions, when one compares the three main partners, the British list is by far the shortest, while the lists EEC and the U.S. submitted are approximately the same, at least when taking the petroleum exception by the U.S. into account, as EEC wants to do. For if petroleum is not taken into account, as the U.S. suggest on the ground that it is mainly obtained from a non-GATT country- the size of the U.S. list would be approximately the same as that of Britain (EEC and U.S. + 18% of industrial imports, U.K. + 3%).

The Common Market's list of exceptions is rather long. Prominent on it are certain products of highly technological

industries: for example, electronic computers (other than card operated machines), automatically controlled machine-tools, semi-conductors, and several other kinds of electrical and electronic equipment. The rationale of these exceptions is the so-called technological gap; the Community hopes to encourage the rapid development of these industries in Europe. Encouragement in this form is unlikely to prove very real, however. Tariffs are not an effective means of protecting industries whose products sell more on the basis of uniqueness, reliability and service, than on price.

The U.S. list of items on which tariffs were cut less than 50 per cent consists largely of labor intensive consumer goods; for example, footwear, hats, gloves, watch movements, glass products and transistor radios. Such industries have a cost disadvantage relative to imports in the high-wage U.S. economy.

It is interesting to note that the EEC countries have not laid any national lists of exceptions before the Commission, but the Commission, as negotiator, comes with its proposals to the member countries.

Japan, which as an outlet is of importance for the U.S. but not yet for Europe, submitted quite a long list.

After the lists of exceptions were submitted in November 1964, talks took place in Geneva at the beginning of 1965, during which all the lists were successively subjected on a multilateral basis to a procedure of confrontation and justification. This has been restricted to an explanation of the argumentation used for the exceptions. There has been no question for any real confrontation; this could only lead to a stiffening of view points. Instead of this, all kinds of informal bilateral talks took place in which the highly technical and time-consuming specific difficulties in trade between the countries concerned were discussed and in which items of major trade interest with a view to obtaining offers or improvements were indicated.

In some important industrial sectors, however, the problems involved were unlikely to be resolved solely by bilateral negotiation and if the maximum offer of tariff reductions was to be secured, a more multilateral technique of negotiation needed to be evolved.

After this had been clear the "sector approach" was improvised. Special multilateral groups were established for aluminum, pulp and paper chemicals, iron and steel, and cotton textiles.

Both the EEC and Britain had refused to offer reductions in their chemical duties unless the United States altered the "American Selling Price" method of valuation for the assessment of duties on benzenoids. Similarly, the EEC declined to consider reductions in its duties on paper unless the Scandinavian countries liberalized their exports of pulp. Negotiations on steel exceptions were burdened from the beginning by the Community's use of a fictitious rate from which to calculate its linear cut - a rate substantially higher than the tariffs actually charged at the beginning of the Kennedy Round.

In each of these sectors, the action which some negotiators were prepared to take depended on the action of the others in the same sector. The only hope to break the deadlock was to arrange a confrontation of the principal protagonists and to hold negotiations limited to the problems of the relevant sector. Groups for this purpose were formed, with the twofold task of clarifying the facts and of seeking solutions. Agreement could be reached only if all sides made concessions from their original rigid positions.

To a large extent chemicals, iron and steel, and cotton textiles were negotiated as separate packages, while negotiations on aluminium and pulp and paper were finally concluded bilaterally.

The sector approach can be looked upon as a device for repairing part of the damage to the linear approach already wrought by the padded lists of exceptions.

#### 4. Non tariff barriers

Under the terms of the Resolution adopted on 6 May 1964 the Trade Negotiations Committee recalled that the trade negotiations must relate not only to tariffs but also on non-tariff barriers. These barriers were made the subject of negotiation in the Kennedy Round because of the justified fear that a general reduction in tariffs would increase the relative importance of existing non-tariff barriers and would encourage the use of new

protecting devices not explicitly precluded by GATT commitments.

It was decided that certain non-tariff barriers, in which governments participating in the negotiations had indicated their interest, should be examined in groups consisting of countries having a particular interest in these barriers. The following were among the barriers in which governments have indicated their interest and which were the subject of discussions in individual groups:

1. administrative and technical regulations which may hamper imports;
2. practises in regard to assessment of duties, including valuation for customs purposes;
3. government procurement policies;
4. internal taxes, quantitative restrictions and state-trading;
5. anti-dumping policies.

Various countries, EEC among them, have submitted extensive documents about the measures which they think should be dealt with in this connection. Only a few of the most important cases can be dealt with in the framework of the Kennedy Round Talks themselves. For all other cases only a procedure for the way in which they will be dealt with could be agreed upon. Most delegations came to Geneva briefed on the non-tariff sins of others but unprepared to alter practises in their own countries.

One of the matters of paramount importance for EEC is the so-called American Selling Price (ASP). The ASP method of customs valuation applies by law to certain U.S. imports of benzenoid chemicals, mainly dyes, pigments and certain pharmaceuticals. Tariff duties are normally calculated on the invoice value of the imports. ASP requires instead that the customs official determines a domestic U.S. price and then applies the tariff as though the item had been imported at that price. According to a 1966 study by the U.S. Tariff Commission, ASP Results in higher duties - in some cases much higher - than conventional valuation for some two thirds of the chemical items subject to ASP. Since rates on benzenoids are rather high anyway, the combined effect of ASP and high rates afford unusually high protection. The relationship of nominal tariff (NT), true tariff (TT), foreign price (FP) and American selling price (ASP) is shown in the following

equation:

$$TT = \frac{NT \times ASP}{FP}$$

The true United States tariff rates on benzenoid intermediates are between 71 per cent and 102 per cent above the nominal tariff rates. It has been calculated that the nominal tariff rate average for benzenoid chemicals is in the range of 23.9 to 26.4 per cent, whereas the true tariff rate is in the range of 40.9 to 53.2 per cent. The ASP valuation procedure therefore involves a significant increase in the protectiveness of the nominal tariff rate.

Any comparison of European and American tariffs will need to take into account another difference in valuation practices. Imports into the United States not subject to ASP are valued on the basis of the export (f.o.b.) value of the product, a basis that results in lower tariff payment than use of the import (c.i.f.) value, which is the normal practice elsewhere.

Moreover EEC has conditioned a revision of the "Buy American Act" on account of which the American Government prefers offers of American firms, even if their offers are much higher (up to 50 per cent) than foreign competitors. By means of such a preferential treatment certain American tariff concessions can in fact easily be cancelled.

Another important non-tariff barrier concerns the American Wine Gallon Assessment system of assessing duty on imports of bottled spirits. Hereby excise and import duties are charged on the water in imported bottled Scotch whisky as though it were 100° proof, thereby charging the added water for duty. Since whisky imported in bottles and ready for consumption is normally 86 proof (43 per cent alcohol), the excise tax falls on 14 per cent water. This means that the effective rate on the alcohol in the bottled whisky is not \$ 10,50 per gallon but \$ 12,21. In any case the combined effects of tariffs, excise taxes, the wine-gallon regulation, labeling rules, and agricultural support programs on the cost of domestic and foreign whiskies, show that the nominal tariff rate of \$ 1.02 per gallon understates the total protection afforded by a substantial margin.

Quite early in the negotiations EEC and U.K. demanded elimination of ASP as a condition of reducing many of its chemical tariffs. But for the U.S. to abandon this method of valuation and also reduce the statutory tariff rate by 50 per cent, as demanded by her trading partners, would mean a reduction in the duties actually collected of more than the 50 per cent reductions authorized in the Trade Expansion Act. In any event, the basis of valuation could not be changed by the U.S. administration within its delegated powers. Thus, any settlement of the ASP issue would require some action by the Congress.

EEC maintained its position almost to the end, making it appear likely that the Kennedy Round would end with no cuts at all in chemicals tariffs.

In 1966, however the U.S. announced that they might consider abolishing the ASP on the understanding that its effect would be incorporated into the import duties.

These duties might be halved in the Kennedy Round, but in that case the other negotiating partners would have to reduce their tariffs on chemical products by more than 50 per cent. It was doubtful whether the other member countries would want to accept this proposal, for even a halved ASP would in many cases be a very heavy burden.

The outcome was a last minute compromise. Another subject prominently figured on the agenda of the Kennedy Round is the anti-dumping policy of the various participating countries. The application of the American anti-dumping legislation imposes severe hardships on international trade and has therefore given rise to repeated criticism. The main charges against the American system are the following:

1. in a number of cases an investigation into possible dumping practises is undertaken by the U.S. Administration, even without a request from interested parties; moreover, the investigation procedure is automatically engaged, if a complaint is presented, even if totally unsubstantiated.
2. during the investigation the tariff classification and determination of the value of the imported goods is suspended, which means that it takes months before the exporter and importer know what duties are to be paid.

3. the investigation into price differences and the evaluation of injury do not take place simultaneously, which prolongs the procedure unnecessarily.

These practises bring needless uncertainty and damage to the exporters to the U.S., as witnessed by the fact that e.g. during the period from January 1955 to April 1965 an anti-dumping investigation was instituted in 110 cases, of which only 45 cases showed a significant price difference, but injury was found to exist in only 9 cases.

### Agriculture

The aim of the negotiations in the field of agriculture was decided by the GATT Ministerial meeting of May 1963 as "the creation of acceptable conditions of access to world markets for agricultural products in furtherance of a significant development and expansion of world trade in such products".

The Ministerial Resolution had not, however, replied to the fundamental question of how to reconcile that expansion of international trade with the equally legitimate demands of agricultural producers in the various producing countries, regarding the improvement of agricultural prosperity and the establishment of a better social balance between the various social and professional categories within one and the same country.

#### 1. The EEC proposal of "montant de soutien"

The EEC was of the view that the tariff approach was inadequate for negotiations on agricultural products because of laying emphasis only on trade liberalisation without considering the effects of reducing tariffs on employment and its social repercussions. The EEC concluded, that the fundamental element, the factor common to all contracting parties, was the support granted to agriculture. One should therefore take the margin of support as the starting point for defining a minimum of flexible rules, the observance of which could really ensure uniform relations between the contracting parties in the agricultural sector.

The EEC, therefore, proposed in January 1964 that the negotiations should be on the margin of support, with the object

of binding\* a maximum support margin on a given agricultural product. The margin of support is equal to the difference between the price of the product on the international market and the remuneration actually obtained by the national producer in the country with respect to which the margin of support is to be determined. By means of its variations, the support margin can be an instrument of economic policy: any increase in the margin which is not connected with a variation in prices on the world market means a strengthening of the domestic producer's position; any lowering on the other hand demonstrates the desire of the public authorities to orientate prices towards those on the world market and to discourage productions which might be considered marginal. The support margin constitutes a direct and flexible link between the various national markets and the world market. Henceforth, isolation is impossible and the world market no longer appears as an abstract and arbitrary concept, since the various national markets are attached to it by their margin of support.

The resolution of the GATT ministerial meeting clearly specified that the rules adopted for negotiations on agricultural products as a whole should be supplemented for certain products and lead to world arrangements.

The EEC considers that world arrangements should be drawn up with respect to products which play an important role in international trade and for which it seems possible either forthwith to acknowledge the existence of permanent imbalance between supply and demand in those products, or to foresee such imbalance in the short term.

The "world commodity arrangement" should, however be different from the international agreements concluded in the past which, on account of their limited number as well as the methods used, being unduly limited to the trade aspects, would not suffice to settle current problems. The world arrangement must cover internal support measures and other measures for organization

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\*. The EEC did not propose to decrease the "montant de soutien" because this would mean that price levels within the Common Market would also be brought up for discussion in GATT, just after they have been settled internally.

of markets, both in the importing and the exporting countries, but must in addition constitute a superstructure in relation to the general rules of negotiation for agricultural products.

The world commodity arrangement is essentially aimed at promoting the broadest possible multilateral cooperation with a view to achieving:

1. equilibrium between production and demand in the long term as well as the limitation of short-term fluctuations, in general by means of expanding existing demand and broadening the international market and, to the extent necessary, by means of restricting supply or even production;
2. stabilization of world market prices at an equitable and remunerative level.
3. the world arrangement should take account of the food needs of the developing countries.

Arrangements of this kind could be concluded for the following products: wheat and coarse grains, meat of bovine animals; certain dairy products e.g. butter, sugar, and perhaps oilseeds.

In world arrangements, the reference price becomes an equilibrium price in international trade and at the same time a target price in the long term; and in most cases, it will be a negotiated price.

The world arrangement envisages the stabilization of prices at an equitable and remunerative level which would be at the same time satisfactory for the exporting countries whose earnings are or could become inadequate and for the importing countries desirous of ensuring the maintenance of a certain income for their producers and the legitimate interests of their consumers.

World arrangements should contain provisions for taking up existing surpluses and should include the obligation, for producing countries, to take steps in order to prevent the accumulation of new surpluses.

### Some explanatory notes on the EEC proposal

Some GATT partners noted that if world market prices fell below the reference price, the corresponding increase in protection at the frontier would not be considered as exceeding the consolidated support margin.

In these circumstances the margin of support was not bound but in fact the level of support was being consolidated. Under the EEC scheme, however, two things would in principle be consolidated: the reference price and the support margin. The reference price, which was to be negotiated and would, in principle, remain unchanged for a three-year period, played an essential role in the EEC concept. Furthermore, a binding of the level of support would involve many more practical difficulties than a binding of the margin.

This could be illustrated by difficulties arising from changes in the nominal value of the currency; in such cases it would be easier to adjust the protection at the frontier than the internal support price. If world prices would increase beyond the reference price, governments would, in principle, be free, but not obliged to increase the level of support while maintaining the margin above the world price at the consolidated amount.

The EEC proposal limited the margin of support to include only direct subsidies since these subsidies had an immediate effect on production. It was considered impracticable to include subsidies of a general character.

In determining the amount of support the existence of import restrictions would be fully accounted for.

### 2. American objections to the Community proposal

The United States does not find the EEC's proposal concerning the binding of the margin of support above a fixed reference price acceptable, because it not only fails to provide for reductions in existing trade barriers, but it would introduce new restrictions and increase protection and it would eliminate price competition as a factor in future trade.

More specifically

1. The effect of the EEC proposal would be to generalize the variable levy system to almost all agricultural products moving in world trade, thus insulating domestic agricultural production of importing countries almost entirely from foreign competition.
2. The support margin method would not result in the reduction of existing protection.
3. The binding of the margin of support is not sufficiently restraining for producers because the EEC proposes a number of escape clauses:
  - a. In case of changes in exchange rate, the margin of support could be increased.
  - b. If world prices fell below the reference price, the margin of support would also be increased.
  - c. When world prices rise above reference prices, the importing country would have the right to shift the base for the margin of support from the reference price to the actual world price.
4. The margin of support is not sufficiently representative for it does not include indirect aids.
5. The support margin method leaves it possible in practice to resort to the most protective instruments of support.
6. The EEC's negotiating plan would eliminate existing tariff bindings: items now protected by fixed tariffs only would have reference prices determined for them, and whenever would prices fell below the reference price, a supplementary levy would be added.
7. The support margin method is too complicated because reference prices would have to be established and effective internal prices identified not only for raw materials but also for thousands of processed products as well.

3. Reply of EEC to American objection

This reply concentrates on the following points:

The U.S. objection that the margin of support method would introduce new restrictions and increase protection only applies to

the possibility of adjusting the margin of support to take account of variations in actual offering prices in relation to the reference price. The reference price envisaged by the EEC is more ambitious to the extent that it is intended to be a stabilizing instrument both for the domestic market and at the same time for international exchanges. In order to ensure stabilization, protection at the frontier must be adjusted if actual offering prices fall below the reference price, and the EEC can see no better instrument for this than the application of an additional levy.

ad 1. Far from wishing to generalize the levy system, however the support margin method respects the specific character of national systems and leaves contracting parties free to resort to whatever instruments they may choose.

ad 2. The EEC insists that all contracting parties must as a minimum undertake to bind the margin of support currently in force. It is not possible to reduce this proposal to a mere binding of the status quo, in which each contracting partner has unlimited autonomy. The EEC proposes that such autonomy should be reduced in favour of permanent international co-operation.

ad 3. a. The proposed adjustment stems from the legitimate desire for stabilization at the domestic levels;  
to the extent that such adjustments were necessary they would have no incentive effect on production, being designed solely to maintain the support at its previous level.

b. This is not an escape clause giving the right to levy an additional amount, but an obligation for importers and exporters to observe the reference price.

c. Such an increase can not be made unilaterally and the contracting party concerned would have to adjust the margin of support in consultation with its partners.

ad 4. In proposing that only direct aids should be included, the EEC's object is to simplify the matter and avoid difficulties connected with the identification of indirect aids and their correct assignment to each agricultural product benefiting by them. Any policy of transforming direct aids into indirect ones in order to evade the obligations

of the support margin method would be covered by the review and comparison procedures which form an integral part of the support margin method.

- ad 5. Of course, the support margin method would leave contracting parties free to select the instruments of their agricultural and trade policy, the global effect of those instruments being expressed in the margin of support. It would not be admissible, however, for a contracting party to place in question the value of concessions granted by modifying its instruments. Each contracting party would therefore have to notify its partner, at the time of binding its margin of support as on the occasion of any change in those instruments in the course of a given period, as to the nature of the instruments which it applies and their conformity with its commitments.
- ad 6. The EEC maintains that the binding of a margin of support strengthens earlier concessions to the extent that they imply commitments on elements of agricultural or trade policy which are not covered by tariff bindings.
- ad 7. Bearing in mind the work of Committee II of GATT, the U.S. cannot assert that the method is difficult to implement. The fact that the Study Group set up by Committee II has been allowed to lapse into inactivity is attributable much less to the technical difficulties encountered than to the reticence shown by some contracting partners.

In conclusion, the EEC does not consider that the criticisms made by the U.S. are pertinent.

When one surveys the American objections, the conclusion seems justified that the U.S. do not without more ado turn down the system of the "montant de soutien", but that Washington object only to certain modalities and to the size of the field in which the system will apply.

In their counterproposal the Americans did suggest that they might accept the system for a number of major farm products, provided this would lead to a significant liberalisation of trade and an assurance of continued access to markets. Asking promises (regardless of the level of protection) about the possibility of selling certain quantities is much more attractive for the exporting

countries (e.g. U.S.) than to be dependent on what will be the eventual effect of a certain price level on the production, and therefore on the import possibilities in the EEC. A lowering of prices would not automatically have to result in a decrease in production, due to the farmer's desire to retain the same income.

France and the European Commission have stated again and again that negotiations on agriculture could not take place before the Common Market's own common agricultural policy had been established. This statement was obviously made with the idea that under pressure of the forthcoming Kennedy Round negotiations the common policy could more easily be forced through.

Apart from the fact that the statement as a generality is not tenable (for instance, for a number of products it was not even clear whether there should be a policy at all), Germany has objected to this point of view. Bonn wanted to be able to negotiate on cereals without a common cereal price for EEC already having been fixed. Germany would like to put off this decision until after the elections in 1965.

The result has been that the statement that negotiations could only take place on the basis of a common policy, has no longer been absolutely maintained. The possibility of negotiations without the essential elements of that policy (prices particularly) having been fixed, has been left open.

#### 4. The crisis

Until December 1964 the agricultural talks in the Kennedy Round had to be broken off. This was mainly due to the German refusal to agree to the fixing of common target prices for cereals in EEC. Bonn has set forth a number of preliminary conditions which could have to be fulfilled before talks could be continued internally. These conditions include a harmonisation of transport tariffs for cereals and a compensation for the difference in the financing of social payments. In some countries (France) social payments are largely financed from government funds, whereas in other countries (Germany) they have to be furnished by business and therefore influence prices. As the other five EEC countries and the Commission appeared to be unanimously willing to fix common cereal prices, they were prepared to some extent to meet

Germany in its difficulties. The EEC has therefore changed its original suggestion. In the new proposal a number of elements have remained unchanged, but several important alternations have been incorporated.

Unchanged were: the level of the common target prices, the principle and the level of common financing of compensations for farmers in those countries where prices would have to go down, and the principle and the level of the restitutions on exports.

What has been changed is the date of introduction of the common target prices. Where in the original Mansholt Plan the 1964/1965 season was chosen, the season suggested was 1966/1967. As a logical result the common financing of compensations and restitutions would therefore also come into force two years later.

At the same time a revision-clause had been introduced into the new proposal, which partly met German wishes. They wanted a revision of prices to be possible only on the basis of the development of the cost of living - not for any other reason.

The mere existence of the revision clause made it almost impossible for the Commission to offer the \$ 106,25 as a firm basis for consolidation in GATT.

In March 1965 after nearly two years of preparatory work, agreement was reached on a procedure under which participating countries agreed to make specific offers on individual agricultural products, designed to achieve the objectives set out by the Ministers.

For some major commodities -cereals; meat and dairy products - negotiations should take place in groups with a view to considering whether general arrangements were required or might be negotiated. For certain other major commodities, although discussion was not directed specifically to general arrangements, negotiations ranged wider than tariffs.

With respect to these products, including tropical agricultural products, it was agreed to proceed by means of specific offers on individual products. For many processed foodstuffs the negotiations did not differ much from the negotiations on industrial products, being concerned principally with the protection at the frontier.

The Community was unable to put its agricultural offers

forward on the agreed date of 16 September 1965 because of internal differences within the EEC, which had resulted in a suspension of major decisionmaking on June 30, 1965, and continuing throughout the remainder of the year.

Despite this the U.S. and other major countries (U.K., Canada, Australia, Japan) tabled their agricultural offers, with the U.S. and other countries withholding items of primary interest to the Community. It turned out that all had come up with pretty much the same ideas. There seemed to be a remarkable resemblance between these offers.

They were all based on the idea of an organized world market with some sort of price floor in it. They all foresaw some mechanism for maintaining the agreed price range and they all looked to the less developed countries to participate in organized surplus disposal.

This was undoubtedly a success for the Community. It meant that other countries had implicitly accepted the rather roundabout and indirect way of tackling the problem of world food trade, rather than meeting specific trade barriers head-on.

#### 5. The EEC offer

Because the necessary additional EEC agreement on cereals only came about in June 1966, it was not until 29 July 1966 that the EEC tabled its agricultural offers. At that time the U.S., along with other countries, tabled agricultural offers of interest to the EEC.

Active bilateral negotiations were started in October 1966 and continued into the early months of 1967.

The three main elements in the negotiations on cereals were:

- a. minimum and maximum prices in international trade;
- b. assurances of access to the markets of importing countries;
- c. contribution to a cereals food aid programme.

ad a. Essential to the whole concept of the world-wide cereals arrangement is an agreed reference price on the world market. No trade should be allowed below this price - in effect a global minimum price - and any offers made below this

price would be made subject to either export levies in the exporting countries or import levies in the importing countries. A high level of this price is, of course, attractive to exporting countries, such as U.S., Canada, Australia and France. Importing countries, however, such as U.K., Switzerland, Japan, Germany and Holland prefer a low level\*. The EEC proposed a world reference price at the level of the export price of one of the most efficient big exporting countries, Canada, plus the export subsidies granted by this country. This meant a world reference price for wheat of 2,5 to 3.5 dollars per ton above the world market price of a little more than \$ 60 per ton.

ad b. Lengthly negotiations took place on access to markets and in the later stages discussion centred on the concept of self-sufficiency ratios, i.e. the ratio of domestic production to domestic consumption of grain in each of the principal countries. In this point the problem of "access to markets" and of the financial responsibility for the disposal of surpluses is solved by a financial arrangement based on degrees of self-sufficiency. If a country exceeds its degree of self-sufficiency and therefore creates surpluses, it will have to make a proportionate contribution towards financing the disposal of surpluses. This would put a financial brake on the increase of production. It will at the same time guarantee the exporting countries that their export opportunities would continue or at least that the disposal of surpluses that cannot be sold on traditional markets will be financed by the "guilty parties".

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\* . The decisive argument for the partners of France in EEC not to fall in with the French ideas was the fact that they did not want a world cereals agreement which was bound to lead to what they considered on unwanted increase of production.

The EEC did not set the right example in fixing its degree of self-sufficiency at 90 per cent, in spite of the fact that during the past 30 years this percentage has constantly remained at 86 to 87 per cent.

If proved impossible to reach agreement on levels of self-sufficiency ratios acceptable to both importing and exporting countries, and the attempt to negotiate assurances of access was finally abandoned.

ad c. From the outset of the negotiations the major exporting countries pressed importing countries to accept the principle of a multilateral food aid programme to which all the major participants in the Kennedy Round would contribute. During the latter stages of the negotiations, the exporters put forward a specific proposal for an annual programme of 10 million metric tons of wheat as a contributing to food aid for developing countries.

There were lengthy negotiations to explore the possibility of establishing international arrangements for trade in meat and dairy products, but it did not prove possible to arrive at multilateral agreements.

As arranged by the Trade Negotiations Committee, participants in the negotiations made a general assessment of positions on November 30, 1966 and then continued their work in further bilateral and multilateral negotiations that continued into the closing phase in March-June 1967.

#### Countries with a special economic or trade structure

The setback on agricultural products led to a further defection. Canada, Australia, New Zealand and South Africa, while welcoming across-the-board tariff cuts by the highly industrialized countries, announced that, because of their heavy dependence on the exportation of primary products, they could not hope to obtain "reciprocity" for linear reductions in their tariffs. In the case of Canada, there was another, and perhaps more compelling, reason for rejecting linear tariff reductions. Canadian

negotiators argued, with apparent conviction, that equal reduction of industrial tariffs by Canada and the United States would expose the smaller partner to intolerable competition without equivalent benefits. None of these countries could be moved from its position and the GATT Ministers had no acceptable alternative but to admit them to the negotiations on their own terms; equal linear reductions would not provide an adequate balance of advantages in the trade negotiations, and the objective in the case of these countries should be the negotiation of a balance of advantages based on trade concessions by them of equivalent value. These countries are therefore to make a positive offer on specified products rather than a linear reduction with certain exceptions.

The contributions of the "special problem countries" were thus to be negotiated in the traditional manner on a bilateral basis for the removal of items from the lists.

#### The final period of negotiations

The final phase took place against the clock since the powers made available to the President of the U.S. under the Expansion Act of 1962 were due to expire on 30<sup>th</sup> June 1967.

As the problems on disparities, exceptions and non-tariff barriers mostly occurred concerning special groups of products, the GATT Secretariat took the initiative in 1965 to discuss these problems per group of product, characterized by more or less common problems. This concerned paper, aluminium, steel, cotton-textiles and chemical products.

As already has been mentioned before, a long period of stagnation in the Kennedy Round negotiations started on 30 June 1965 as a result of the internal crisis in EEC concerning the financing of the common agricultural policy. The agreement on 29 January 1966 at Luxemburg entailed the end of this crisis so that the negotiations could be reopened.

The first concrete decisions of the Ministerial Council, however, came in June and July 1966. They contained a mandate to negotiate on a few industrial products, such as paper and aluminium, and EEC offers on agricultural products, such as dairy products, meat, chickens, vegetables and fruit.

Next months attention had been focussed on a general

"confrontation" of the offers of the participating countries, so that before the end of 1966 each country could determine whether it could maintain, expand or contract its original offers.

On the basis of the purpose to achieve mutually proportional concessions, a number of countries presented on 30 November 1966 so-called "warning lists".

These lists contained an enumeration of both additional offers to be obtained from other countries (mostly from EEC) and own offers which would be cancelled in case those other countries would not be inclined to expand their offers sufficiently. The EEC decided to present no warninglist.

In January 1967, when the real final negotiations started, the most remarkable thing was that the prospects were just as uncertain as when the Kennedy Round was first suggested by the then President of the U.S. It was not quite correct to say that the prospects were dim: they were absolutely uncertain, and it was doubtful whether any of the negotiating partners in Geneva had, even at this late stage, any idea about how it would all turn out.

1. One reason was that in spite of the long gestational period, the negotiations were still weighed down by major unsolved complexes that were no nearer to a practical solution than they were three years ago.
2. The second main reason why an assessment of the prospects was so difficult, was the continuing uncertainty about the intentions of the partners.

In May 1967 close to the expiration of the Trade Expansion Act, Americans failed to find any signs of a sense of urgency in Europe. They found no counterpart to their own conviction that a timetable had to be adhered to. They found it difficult to understand why the Commission seemed content with a negotiating mandate that seemed to them inadequate to resolving the fundamental issues of the negotiation, all of which had survived four years of debate.

Then the GATT Secretariat initiated a Marathon-session, in which all major negotiation delegations (EEC, U.S. U.K., Scandinavian countries, Switzerland and Japan) participated. On 15 May 1967 this resulted in an extensive "package deal" with concessions from and on behalf of all negotiating countries.

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4

E.E.C. AS A PARTY IN MULTILATERAL TRADE NEGOTIATIONS

A preliminary assessment

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THE KENNEDY - ROUND : EXPECTATIONS AND EXPERIENCES

Expectations

In the trade message President Kennedy sent to Congress on January 25, 1962, he urged Congress to replace the old Trade Agreements Act "by a wholly new instrument, - to meet the challenges and opportunities of a rapidly changing world economy." <sup>1)</sup> Among the "five fundamentally new and sweeping developments (which) have made obsolete our traditional trade policy", the growth of the European Common Market, was mentioned as the first and probably most important one. E.E.C. in 1958 - 1962 had "progressed with such success and momentum that it has surpassed its original timetable, convinced those initially skeptical that there is now no turning back and laid the groundwork for a radical alteration of the economics of the Atlantic alliance."

In 1960, a first decision was taken in E.E.C. to accelerate the execution of the treaty; in 1961, Great-Britain, Norway, Denmark and Ireland had applied for membership; and on January 14, 1962, E.E.C. had successfully completed the first stage of its transitional period. The prospect and the challenge of an enlarged common market "which may soon nearly equal our own (American), protected by a single external tariff similar to our own", asked for a creative response from a government which had promoted European unity within the Atlantic alliance, ever since 1947.

This prospective new situation, as well as E.E.C.'s internal experiences, also required new negotiating techniques to replace the traditional product - by - product one. "We must talk"

- the message went on - " in terms of trading whole layers at a time in exchange for other layers, as the Europeans have been doing in reducing their internal tariffs, permitting the forces of competition to set new trade patterns.

Meeting the economic challenge of an enlarged community, was not the sole purpose, however, of President Kennedy's new trade policy. It also expressed his belief "that a United Europe will be playing a greater role in the common defense, of responding more generously to the needs of poorer nations, of joining with the United States and others in lowering trade barriers, resolving problems of commerce and commodity and currency, and developing coordinated policies in all economic, political and diplomatic areas"<sup>2)</sup> His new trade policy was to be a means towards the end of forming a concrete and mutually beneficial Atlantic Partnership between "the union now emerging in Europe" and the United States.

On October 11, 1962 the U.S. Congress enacted the Trade Expansion Act, thereby endorsing the new trade policy of the Kennedy administration.

The European Community initially showed little enthusiasm for the Kennedy-proposals. The reason was that the French and some others saw them as a kind of atlantic free trade area in disguise, because of the "dominant-supplier" clause. When the purposes of the new American trade policy became clearer, they were met with increasing enthusiasm in the European Communities. The E.E.C. Commission <sup>3)</sup> and the Monnet committee <sup>4)</sup> welcomed the initiative as a recognition of Europe as an equal partner of the United States. They stressed the need for

"a relationship of two separate but equally powerful entities, each bearing its share of common responsibilities in the world." Both of them especially emphasized the necessity for E.E.C. to deal as a unit with the United States and other countries. Hence their proposal to revise the negotiating methods in such a way that the Commission's freedom of action be increased. In doing so, "There can be no question - said the Monnet committee - of a transfer of authority. The Council of Ministers.... must continue to lay down the broad guiding lines and reserve the final decisions to themselves under the various terms specified in the Treaties." It should "deal with questions as a whole instead of dealing with each and every detail." By organizing "a regular interchange" between the Commission and the Council, the Commission could be entrusted "with greater responsibility for the negotiations," and "negotiate as the Community's representative."

The expectations + on both sides of the Atlantic - of an enlarged community, acting through a forceful representative, were not the only ones to be challenged in the future. In December 1962, Wyndham White already wrote "that neither the United States nor other important exporters of agricultural products will be in a position to move further ahead with trade liberalization if present policies of agricultural protectionism remain unchecked; still less, if as at present appears likely, they are still further aggravated." The discussions in the U.S. Congress, "The recent report of the consultation in GATT regarding the E.E.C. Common Agricultural Policy," and - if I may add - the current negotiations on agriculture between E.E.C. and

Britain, are part of "a gloomy series of reports on this unpromising subject." 5)

French observers in 1962, apparently restricted their reaction to showing surprise over American support for E.E.C.<sup>6)</sup> Their assault on the new American policy only came on January 14, 1963. In the Gaulle's pressconference, the remarks on the E.E.C. agricultural policy not only made "the series of reports more gloomy." By excluding Britain, he also took issue with the very essence of European and American expectations. In an enlarging community, "the cohesion of its members.... would not endure for long, and that ultimately it would appear as a colossal Atlantic community under American dependence and direction, and which would quickly have absorbed the community of Europe."<sup>7)</sup>

Statesmen and politicians were slow to realize - if they ever have - the consequences of this assault on the partnership idea. Atlantic partnership remained as the major object of official policies outside the Elysée. With this object in mind, the GATT Ministerial meeting, decided on May 21, 1963 to begin comprehensive trade negotiations on May 4, 1964. In June, President Kennedy still stressed the contribution trade expansion could make towards forming an Atlantic partnership.<sup>8)</sup> In September 1963, Mansholt advocated the building of Atlantic partnership - after the failure to let Britain in - as the most convincing proof for an "outward looking" community. The building of such partnership was so important, according to him, that further internal development ought to be made dependent on it."<sup>9)</sup>

#### Experiences

Four and a half years after the enactment of the Trade Expansion Act, the Kennedy-Round

negotiations were completed on May 15, 1967. According to Wyndham White:" the results are of a far greater magnitude than those obtained in any previous trade negotiations." Spokesmen from E.E.C. and the U.S. were generally satisfied with the balanced agreement reached among the industrialized countries. These result will be assessed in other papers. My concern here is to compare experiences aired now with expectations held in 1962, especially with respect to E.E.C. as a negotiating partner. Interestingly enough, the expectation of expanding trade as a means to promote partnership had quietly disappeared in the past years. Rather than promoting it, the Round acquired an autonomy of its own. It has succeeded, notwithstanding serious clashes over economic relations, while at the same time the chances for building Atlantic partnership have become more remote than ever before. Rather than becoming a partner for sharing common responsibilities, E.E.C. has become a rival pursuing separate policies. By making progress in Geneva dependent on progress in agricultural policy in Brussels (the reverse of Mansholt's stated conception), E.E.C. has delayed proceedings, reduced the outcome, but has not - as was expected - wrecked the negotiations. The European Community and its members are inclined to see the results as a proof for their ability to act in unison. The Council of Ministers, however, exactly did the opposite of what the Monnet-committee had suggested. The Commission has demanded more authority over member states and more freedom for manoeuver in Geneva, but has acquired less.

In this paper, I intend to assess the role of E.E.C. as a negotiating party in the Kennedy-Round negotiations. Before analyzing

E.E.C.'s performance in the actual negotiating process, a brief description will now be given of E.E.C. as a negotiating system.

## E.E.C. AS A NEGOTIATING SYSTEM.

### Underlying Principles.

The treaties instituting the European Communities - especially E.E.C. - devote significant attention to relations of the Communities and their members with third states and international organizations. This attention not only originates in the necessity for a new economic unit to deal with others within the scope of its activities. It also springs from the particular aims and principles inspiring the "founding-fathers" of the communities. According to them, E.E.C. should contribute to closer relations between its member states (art.2) and to the harmonious development of world trade (art.110). Pressure from the newly established central institutions gradually increasing their powers over member states, was thought to be crucial for achieving these aims. The existence of an independent executive, having or acquiring real powers also in the conduct of external relations, must be considered as the guiding principle of the Schuman-Monnet approach to European integration.

### Treaty provisions.

Notwithstanding the idealistic character of these aims and principles, little attention has been given to the question of how to devise efficient procedures to effect them.<sup>10)</sup> The external missions of the institutions are, in the first place, much more limited than their internal ones. Within these limits, external relations powers are distributed and/or shared among the Council and the Commission.

The Commission shall be responsible for maintaining all appropriate relations with

the GATT (E.E.C., art.229). Such relations do not replace existing relations between GATT and the community-members. They only supplement them on the "secretariat" level.

The provisions for conducting tariff negotiations, significantly deviate from the general rule for making agreements with third states. 11)

"The Commission shall submit to the Council recommendations concerning tariff negotiations with third countries in respect of the common customs tariff. The Council shall authorize the Commission to open such negotiations.

The Commission shall conduct these negotiations in consultation with a special Committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it."

(art.111(2)).

"The agreements... shall be concluded on behalf of the Community by the Council..."  
...(art.114).

When exercising these powers, the Council shall act during the first two stages by unanimous vote and subsequently (also after the end of the transitional period) by a qualified majority vote (art.111(3), 113(4), 114).

The provisions for conducting tariff negotiations in respect of the common customs tariff, are in themselves an exception - though an important one - to the general rule during the transitional period.

"Member States shall co-ordinate their commercial relations with third countries so as to bring about, by the end of the transitional period, the conditions necessary for the implementation of a common policy in the field of external trade.

"The Commission shall submit to the Council proposals regarding the procedure to be applied, during the transitional period, for the establishment of common action...."

In such matters as commodity agreements, non-tariff barriers and anti-dumping, the treaty thus only provided for inter-member coordination

within the GATT framework (compare art.113(1) E.E.G.)

The most apparent characteristic of these treaty provisions, as of the other ones dealing with the conduct of external relations, is certainly their utmost complexity. The Community-approach as a device for "federalizing" common activities invariably failed when the drafters of the treaty were faced with concrete issues. As a consequence no other principle than the reluctance of member states to transfer external relations powers to the community, seems to have inspired the drafters.

In the field of external trade - the most important field of the communities external relations - the flexible rule of art.228 has been replaced by the far more restrictive provisions of articles 111-116. The differences between them are striking indeed. The Commission's power to negotiate agreements (art.228) is - in the case of tariff agreements - restricted by the provisions that the Council shall authorize her to open such negotiations, that they shall be conducted in consultation with the special committee and within the framework of Council directives.

The voting provisions for Council decision-making throughout this process are more prohibitive than those for concluding agreements under article 228. The Assembly - another potential federalizing force - is excluded from the process notwithstanding the provision of article 228.

In alle other cases related to trade, the Commission shall only submit proposals to the Council regarding the procedure to be applied, during the transitional period, for

assuring coordination among member states. Treaty provisions thus offer a confusing variety of procedures with little prospect, it appears, to promote the "federalizing" process which was thought to be so vital for the community's success.

#### A framework for analysis.

Before embarking upon an analysis of trends in decision-making, it may now be useful to construct a rudimentary framework, which enables us to better measure the evolution of the community as a negotiating partner.

The framework is given in table I. It only deals with those powers which relate to multilateral negotiations. The table distinguishes three broad categories, the third again subdivided into three sub-categories. It is constructed as a continuing scale, each following category representing a higher level of integration than the preceding one. The first category deals with matters for which the conduct - by not being dealt with in the treaty - is left with member states. The following categories are based on treaty provisions as far as they apply to multilateral negotiations. As the table shows, the different forms of conducting external relations are spread over a large variety of powers. This divergence of powers provided for the exercise of related functions, suggests that the evolution of the community may demonstrate its inapplicability, and will consequently show a trend to converging the procedures. The crucial questions thus appear to be: - in terms of our three categories-(1) whether such convergence implies progress towards a higher level of integration or a return to a lower level;

and (2) what impact such convergence has had on the outcome of the multilateral negotiations. Before measuring the evolution during the Kennedy-Round, I shall now turn to an analysis of two early experiences.

## EARLY EXPERIENCES IN MULTILATERAL NEGOTIATIONS.

### The Free Trade Area Negotiations.

Almost from its inception E.E.C. became entangled in an increasing number of complex political conflicts, bearing heavily on the whole evolution of its external relations powers. These difficulties resulted first of all from its very existence. The rise of a strong economic 'power', protected by a common external tariff, made non member states (especially Britain and, later, the U.S.A.) press for multilateral solutions as a means to offset the disadvantages and distortions they feared. This pressure required the Community to negotiate, from its inception, on the basis of a situation as yet non-existent. As long as an external tariff had not yet been established, and common policies have not yet been elaborated, it is certainly difficult for the community to function as a unit in multilateral negotiations. This difficulty grew all the more serious as soon as it became clear that member states were disagreeing fundamentally about the evolution of their relations with third states. The consequence so far has been that the French Government, while opposing integration, is continuously pressing for concerted negotiation of plural interests; whereas some other members, while favouring integration, are increasingly withdrawing their 'loyalty' from the new centre, out of fear that unified action may jeopardize multilateral negotiations and their individual interests.

The first round of multilateral negotiations-concerning a Free Trade Area - has been very ably analysed by Lindberg. He concludes by saying that his analysis "has demon-

strated that the role of the central institutions and of central policies was increased "12). This evolution, in my opinion, was more apparent in the short term than it was real in the long term. It was apparent only because of the fact that the central policy adopted involved no more than a refusal to continue serious multilateral negotiations. Such a refusal by a major trading group represents at best a decision to postpone negotiations. They risk to "accentuate national differences" and "to hinder the development of Community policies"13), once the Community shall be faced with the necessity of taking part in multilateral negotiations again.

#### The Dillon Round.

These difficulties remained relatively inapparent still during the Dillon Round negotiations. This was the case mainly because of the limited negotiating power of the U.S. government, based as it still was on the 1934 Trade Agreement Act; the procedure of product-by-product negotiation; the virtual exclusion of agricultural products from the round; and, finally, the agreement reached among member governments of E.E.C. to accelerate the execution of the E.E.C. Treaty, which enabled the Community to consolidate tariffs on the basis of an external tariff reduced by 20 per cent. It became clear, however, that member governments forced the Commission to negotiate strictly on the basis of a consensus hammered out in the Council. Rather than issuing directives to the Commission, Council consensus took the form of detailed instructions. In case the Commission was unable to sell this consensus to the other contracting parties, it had to go back to Brussels to receive

new instructions. Minor adaptations could eventually be made in agreement with the Special Committee 111 (the members of this committee were the representatives of member governments in the negotiations). The fact that both the special committee and the Commission are to report to the Council still further increased the latter's supervision.

The extent to which the Council exercised its supervision is clearly demonstrated by two facts. Firstly, the E.E.C. Council decided (on May 5, 1959, while agreeing to take part in the Dillon Round) to have the negotiations take place in two distinct stages. During the first, the Commission was to be allowed only to renegotiate existing consolidations, made necessary in view of the new external tariff. This first stage had to be completed before new tariff concessions (the actual Dillon Round) could be negotiated. Secondly, the Council discussed the proceedings in Geneva throughout the whole period at each of its monthly sessions. Even during the first stage, the representatives of the Commission "had to make repeated requests in Brussels to be given more negotiating power for concession-making", in case they "did not succeed with their pre-arranged formula".<sup>14)</sup>

Two examples may throw additional light on the position of the Commission as a negotiator. The negotiations between the U.S.A. and the E.E.C. were certainly the most crucial ones for the outcome of the Dillon Round. In January, 1962, these negotiations were moved to Brussels. At E.E.C. headquarters the Commission tried to hammer out a package deal with the U.S. representatives. Throughout the proceedings, representatives of E.E.C. member states were sitting in a nearby restaurant, to

follow and to approve the proposals worked out by the Commission.

Another example was provided by the accession-to-GATT negotiations conducted with Portugal. Faced with the impossibility of obtaining favourable terms with the Commission and the Special Committee (representatives of the economics ministries!), Portugal approached the six foreign offices directly; an agreement was reached, by-passing both the Commission and the committee in Geneva. One isolated decision, taken as a result of the Dillon Round, suggests a little increase in the powers of the Commission. In its report on the first stage, <sup>15)</sup> the Commission writes that it has received a general mandate to negotiate tariff concessions with third countries desiring to change or withdraw their concessions. So far, such negotiations had been conducted bilaterally with member states profiting from the existing concessions. The agreements discussed so far have invariably been concluded by the Council.

The complicated mechanism for Community participation in GATT negotiations makes it extremely difficult to assess the real role played by the central institutions. Firstly, member states have been able to concert their action- with the assistance of the Commission's presence as observer - at GATT ministerial conferences. Secondly, the Commission has participated, alongside member governments, in the work of the committees set up by the conferences, with the task of preparing and drafting the rules for the actual negotiations. Finally, the Commission has carried out the task of negotiating tariffs with the other contracting parties on behalf of the Community and member states. In fact the Commission had to negotiate on two

levels, with a view to bring together the compromise between six points of view with those of the partner(s) in the GATT negotiations. This two-level negotiation has seriously hampered the Commission's role as Community negotiator, in most cases, owing mainly to the increasing difficulties between member states.

The kind of unity E.E.C. manifested during the Dillon-Round is indicated on table II.

#### THE KENNEDY-ROUND NEGOTIATIONS.

During a meeting of the GATT contracting parties held in Geneva from October 23 - November 16, 1962, the governments of Canada and the U.S.A. proposed to convene a ministerial meeting in the early part of 1963 to consider a program for effective liberalisation and expansion of trade in primary and industrial products.

This ministerial meeting took place from May 16-21, 1963. During this meeting it was agreed to begin comprehensive trade negotiations at Geneva on May 4, 1964. A trade negotiations committee was set up with the task of elaborating a trade negotiating plan in the light of the principles agreed to by the ministers, and of supervising the conduct of the Trade negotiations.<sup>16)</sup> The plan should deal inter alia with: the depth of the tariff reductions, and the rules for exceptions; the problem of disparities, raised by E.E.C.; the problems of non-tariff barriers; and the conditions of access to world markets for agricultural products.

When the contracting partners met again in May 1964, the Trade Negotiations Committee had been unable to reach agreement especially on the problems of disparities and non-tariff barriers, and the treatment of agricultural products. The E.E.C. and the U.S. had been unable to agree on a general disparities rule. The conception of "access to world markets for agricultural products" had been challenged by the E.E.C. approach of consolidating the "montant de soutien". On non-tariff barriers, attention had been concentrated on the preliminary question of identifying those barriers on which participating governments wished to negotiate.

It was decided nevertheless to move from the initial planning stage to the actual multilateral negotiating stage.<sup>17)</sup>

It was not until July 1966 that the GATT secretariat could propose a time schedule, for beginning the final bargaining phase in January 1967. The basic reason for this time-lag lay again with E.E.C.. On French insistence, E.E.C. had gradually adopted the rule to make progress in agricultural negotiations dependent on internal E.E.C. progress with the elaboration of a common agricultural policy. Since the Americans - supported by other agricultural exporters - had linked progress in industrial negotiations to progress in agriculture, no serious bargaining could be expected before E.E.C. had tabled its offers for agriculture. Due to a number of serious internal crises E.E.C. could only table its offers between August 1966 and January 1967.

E.E.C. thus has considerably complicated and delayed the Kennedy-Round negotiations. It has nevertheless contributed to a fairly successful outcome of the negotiations. Throughout the process it has shown a remarkable unity in action though not of the kind Monnet and the "federalists" had envisaged.

E.E.C. as a negotiating party: what kind of unity?  
The general evolution of E.E.C. as a decision-making system suggests a different trend from the one envisaged by Monnet and the "spill-over" theories.<sup>18)</sup> In this evolution, the Council of Ministers rather than the Commission is emerging as the most important and central decision-making body. The effect of this trend is twofold. (1) On the one hand the Council assumed (or further strengthened) its central role at the expense of both the Commission and

the European Parliament. (2) On the other hand, the Council has stressed its role of being the framework for compromising national policies rather than its task of being the institution for confronting national policies with the community-interest put forward by the Commission. As a result, the Commission has largely concentrated on initiating common (rather than community) action, and on assisting member governments in reaching mutual agreement. The principle of two "equal" institutions, cooperating while each other and acting within the limits of their respective powers, has largely been replaced by the practice of the one institution (the Commission), assisting the "more equal" other one (the Council) in finding intergovernmental agreement. The French conception (since 1958) on what kind of organization E.E.C. ought to be, is largely responsible for this trend. French policy, especially since 1960, has succeeded in inducing its partners to accept its conception. The Luxemburg agreement of January 1966, marks this acceptance. The crisis of confidence which followed the veto over British entrance in January 1963 (maintained by the internal crises following the veto) explains why the five partners gradually settled down on this more traditional concept of intergovernmental cooperation.

For the purpose of this paper, the general trend, summarized above, is most relevant. The Kennedy-Round negotiations, aimed at achieving Atlantic partnership, are at the very heart of the twofold disagreement between E.E.C. members. The British issue, though, showed basic disagreement on E.E.C.'s external and especially Atlantic relations, whereas the political union issue and subsequent internal

crises manifested disagreement over the integration process. As a result, it was a French interest to prevent the Kennedy-Round from achieving its political aims, without losing the benefits of a European common market. Its partners, while being unwilling to risk the achievements of E.E.C., saw it their interest to use the Kennedy-Round (after the veto) for promoting Atlantic partnership through an un-enlarged but on-going community.

It turned out to be the paradox of this situation that the French needed a certain E.E.C. unity in negotiations for opposing the U.S. in the Round, whereas the others wanted a certain unity to prove the vitality of E.E.C. also after the British veto.

The resulting attempt to use the same instruments for conflicting purposes soon became apparent. In April 1963, the German government took the initiative to elaborate a coordinated program of action for E.E.C. with a view to relaunch activities especially in the field of external relations. The French government countered the German initiative on two levels. It insisted on including concrete progress towards a common agricultural policy as a conditio sine qua non for progress in any other field. It raised the so-called disparities problem as one to be solved before negotiations on linear tariff reductions could proceed. When the Council - on May 9, 1963 - agreed to have E.E.C. take part in the Kennedy-Round it virtually endorsed the French position.

The consequences were far-reaching both for the kind of unity E.E.C. could be in negotiations and for the impact on the negotiating process in Geneva.

In the E.E.C. Council a prolonged period began of constant haggling over the relationship be-

tween progress in agricultural policy and instructions to the Commission for the Kennedy-Round. For several reasons, the French were in a better position to obtain priority for agricultural decisions over Kennedy-Round instructions than were the Germans for obtaining a "balanced progress" in both areas. First of all, the French were able, with the support of the Commission, to present progress in agriculture as the test case for E.E.C.'s future development. In the absence of a common commercial policy, and faced with the American position to make progress in the industrial sector dependent on progress in preparatory negotiations on agriculture, the Commission tried to push agriculture internally with a view to improving E.E.C.'s unity externally. The French supported the Commission, though for different reasons. The French furthermore proved willing and able - unlike the other members - to exert the utmost pressure for obtaining their aims. The very methods by which they did so - through fixing deadlines requiring exhaustive Marathon sessions, and provoking crises - well served their objectives. The Marathon session, as a decision-making procedure, is capable of yielding decisions on concrete issues. It is much less capable of yielding results in broader and politically sensitive areas.

The Marathon procedure therefore favored agricultural policy, without at the same time promoting action on the Kennedy-Round. Among the four Marathon sessions during the period under review, three resulted in substantial progress on agriculture<sup>19)</sup>. The June 1965 session ended in a crisis postponing decision-making in all areas, including the Kennedy-Round.

The 1963 session also agreed on directives to be given to the Commission. Within the context of the Kennedy-Round - being in its planning stage - the directives were clearly negative in outlook , exception made for the acceptance of a minimal exception list. The Council reiterated its view on disparities and trade in agriculture by which it challenged the American conception as well as some principles agreed upon during the May meeting of GATT ministers. The agreement could hardly be seen different than as an expression of cohesion in unwillingness. The 1966 session completed the bulk of the common agricultural policy. Germany and the Netherlands only agreed to these decisions on May 11 if a mandate for the Commission could be agreed upon as well. During this session, the Council also agreed to discuss the negotiations in each of its coming sessions. The hard core of E.E.C.'s offers to its partners in the Kennedy-Round were tabled after the Council's May 1966 Marathon only. Before this date the Council had only been able to agree on the exception list (November 1964), on chemical products under the condition of settling the American Selling Price problem, and on aluminium (April 1966).

Table III indicates how little attention the Council paid to the Kennedy-Round before May 1966, and how much more limited the number of sessions had been in which the Council could reach agreement.

Given this mutual distrust within the Council, as a result of the continuous clash between opposing policy-aims, little increase in the negotiating freedom of the Commission could be expected. The French basically disagreed with any such increase, inconsistent as

it was, especially in the external relations field, with their conception of a commission entrusted with the task of assisting states in their mutual consultations. The five practically disagreed with any such increase, afraid as they were for a representative who might act against their interests. The Council's instructions and mandates therefore were either rigid or most detailed. They not only indicated how much the Commission was allowed to offer, and how little it was empowered to accept, but also the tactics it should use. In most cases in which the Council failed to agree on instructions, the permanent representatives or the committee 111 were instructed to examine the problems.

The Council closely supervised the Commission's conduct until the last days in the negotiations. In the final days and hours, when Council sessions were not possible any more, direct contact was taken with the six governments.

The Commission's freedom was further curtailed by the practice - since distrust dominates E.E.C. of leaking Council discussions and decisions to the press. Although the atmosphere of a "Conseil de guerre" <sup>20)</sup> apparently limited this practice during the bargaining stage, leaks occurred throughout this period. Notwithstanding slightly more flexible mandates given to the Commission for the final hours, no increase in the powers of the Commission has taken place.

The procedures for conducting the negotiations have converged to point 2.2. on our scale in table II. This implies that concerted action in some instances has replaced individual action. It also means that the concept of the executive negotiating on behalf of

the community has disappeared in favor of a spokesman speaking on behalf of a group of six states.

E.E.C. as a unit: what kind of impact?

The foregoing analysis has revealed that E.E.C. has not developed to that level of unity its initiators had envisaged. It has neither fallen back to such level of disunity, the disagreement among its members might have indicated. It has settled down as a complicated trade-negotiating sub-system protected and held together by a common external tariff and common economic interests. As a party in the Kennedy-Round it has neither achieved "closer relations between its member states", nor has it significantly contributed to the harmonious development of world trade". As a negotiating sub-system within the GATT framework, it has complicated and delayed procedures instead of facilitating them by acting as a new and outward looking partner.

As a negotiating sub-system it proved strong enough to set the pace of negotiations. It magnified and strengthened the nuisance value of one of its members, but belittled and weakened the spill-over value of sub-regional economic integration. It entered the Kennedy-Round on the narrow basis of the "minimum common denominator" of its members. It gradually "upgraded the common interest" of its members in some areas, once a collusion occurred between those advocating a "European Europe" and those aiming at a united Europe.

However balanced the outcome of the Kennedy-Round may be called by most participants and observers, the impact of E.E.C. acting as a unit has been largely negative.

Rather than functioning as a take-off for more Atlantic cooperation, the Kennedy-Round has contributed to the growing uneasiness between E.E.C. and the United States. Notwithstanding the average tariff cut of 35%, little has been achieved in fostering a more harmonious development of world trade.

On balance, the following conclusions may be presented on the impact of E.E.C. acting as a negotiating sub-system in the Round:

1. The extent to which E.E.C. achieved unity in the Kennedy-Round (point 2.2. on my scale in table II) neither promoted more integration among its members, nor did it foster external integration - the improvement of international economic relations.  
The cohesion among E.E.C. members has an ad hoc character, limited to the specific circumstances of the negotiations. In this situation further efforts to improve internal economic cooperation may well become increasingly incompatible with better external economic relations.
2. The Kennedy-Round has failed to meet its far-reaching political aims. It has proved to be an unsuitable instrument for such purposes. Its very political aims have complicated negotiations. Once it acquired an autonomy of its own as a vehicle for another round of trade liberalization, substantial agreement could be reached. It finally did so however at the expense of a harmonious development of world trade from which agriculture and the developing countries might have received the benefit.

TABLE I

<u>Categories in the Treaty</u>	<u>Treaty provisions</u>	<u>If treaty provisions are applied to:</u>		
		<u>FTA negotiations</u>	<u>Dillon-Round</u>	<u>Kennedy-Round</u>
1. Conduct of external relations left with individual member states	Non-tariff barriers Agriculture			→
2. Conduct predominantly left to member-states Institutions device procedures for common action	art.111(1)	→		
3. Institutions represent member states in conducting external relations.				
3.1. Council and Commission acting under council instructions	art.111(2) 113(3,4) 114	→	→	→
3.2. Council and commission in subsequent stages	art.228			
3.3. Commission acting as the executive	art.229			

Table II.

Categories in practice	Dillon round		Kennedy Round Negotiations		
	First phase	Second Phase	Planning Phase oct '62-May '64	Negotiating Phase May '64-Jan. '67	Bargaining Phase January-May '67
1. Conduct left with individual member states	<u>Irrelevant</u>		Disappeared		
2. Conduct predominantly left to member states. Institutions device procedures for Common action /assist them.					
2.1. Commission has observer states in negotiations					
2.2. Commission is spokesman for community and member states					
3. Institutions represent member states in conducting external relations.					
3.1. Commission acting under Council instructions					
3.1.1. Council concluding agreements					
3.2. Not applied					
3.3. Not applied					

Table III.

## E.E.C. COUNCIL PREPARATIONS FOR NEGOTIATIONS.

Total number of Council sessions	Sessions partly or wholly devoted to the Kennedy-Round	Sessions in which agree- ment could be reached on instructions *)
<u>I PLANNING STAGE . OCTOBER 1962 - MAY 1964</u>		
47	5	2(0)
<u>II. NEGOTIATING STAGE. MAY 1964 - JANUARY 1967</u>		
1.	<u>May 1964 - Juni 30, 1965</u>	
35	8	2(1)
2.	<u>July 1, 1965 - May 11, 1966</u>	
14	6	1(1)
3.	<u>May 12, 1966 - January 1967</u>	
18	8	5(4)
<u>III. BARGAINING STAGE. JANUARY 1967 - MAY 1967</u>		
12	6	5(3)

Sources: E.E.C. monthly bulletins

Agence Europe

Siegler, Europäische Dokumenten. Band II.

\*) Figures in brackets refer to sessions in which the Council agreed on concrete offers to be tabled in Geneva. With the exception of the exception list (agreed upon in November 1964); the offers have been agreed upon in 1966 and 1967 only.

- 1). Quotations are taken from the text printed in the New York Times. January 26, 1962
- 2). From Kennedy's independence Day Speech.
- 3). See its memorandum concerning "The Action program of the Community during the second stage." October 24, 1962. par. 146-149.
- 4). Action Committee for the United States of Europe. Quotations from the Joint Declarations of June 26, 1962 and December 18, 1962 are based on the texts as they appear in: W.E.U. 1962. A retrospective view of the political year in Europe. pages 50-52, 98-101.
- 5). GATT SECRETARIAT. Information and Library Services. International Trade: The Years of Decision. Article by Eric Wyndham White. INT/128. December 1962. The addition is mine.
- 6). See, Schaetzel, Die Vereinigten Staaten und die Gemeinsame Markt. Europa Archiv. 17 Jahr. 1962. p. 661 (10 Oktober 1962).
- 7). English translation in: WEU 1963. A retrospective view of the political year in Europe. p. 21.
- 8). See his speech in Frankfurt on June 25, 1963.
- 9). See his speech on "Atlantic Partnership and European Unity". The Hague, September 18, 1963.
- 10). This paragraph and the following ones are based on an earlier article I wrote on the subject: "The External Representation of Plural Interests. The European Community and its members in the conduct of External Relations". Journal of Common Market Studies. Vol. V. no. 4. June 1967. p. 426-454.
- 11). This general rule is given by art. 228, EEC.
- 12). Lindberg, The Political Dynamics of European Economic Integration. Stanford 1963, p. 166, and, in general chapters VII-VIII.
- 13). Camps, quoted in Lindberg loc. cit.
- 14). Curzon, Multilateral Commercial Diplomacy, London 1965, p. 99.
- 15). The first stage of the Common Market. Report concerning the Execution of the Treaty. EEC Commission June 1962, Par. 91.
- 16). GATT Press Release. GATT/794. Page 12-13.
- 17). Compare GATT Press Release GATT/873.
- 18). More fully analyzed in the author's: Problèmes institutionnels des Communautés européennes. Cahiers de Droit Européen 1966 No. 3. p. 227-250.

19). These sessions took place: december 1963, december 1964 and May/July 1966.

20). Le Monde. 13 January 1967.

THE KENNEDY ROUND AND  
THE DEVELOPING COUNTRIES

J.Vingerhoets

November 1967

## Table of Contents

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## CHAPTER I

### THE DEVELOPING COUNTRIES IN THE GENERAL AGREEMENT ON TARIFFS AND TRADE

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1. I think we need a background when we are looking at the role the developing countries played in the Kennedy-Round and at the results for them of these trade negotiations. Several pictures can serve as background for this purpose.

The best and most adequate seems to me the position of the developing countries in GATT and the attention given to their trade problems in the GATT framework.

2. In 1947 twenty-three countries became contracting parties of the General Agreement. Ten of them were developing countries. In the following years their number increased considerably, and fifty are now participating in GATT.
3. Real attention in GATT for the particular and weak trade position of the developing countries stems from 1957. Then the Contracting Parties decided there should be a panel to examine trends in international trade. In particular the experts are asked to give attention to "the failure of the trade of less developed countries to develop as rapidly as that of the industrialized countries, excessive short-term fluctuations in prices of primary products, and widespread resort to agricultural protection".

The conclusion of the Haberler report "Trends in International Trade" is "that the prospects for exports of non-industrial countries are very sensitive to internal policies in the industrial countries and that on balance their development will probably fall short of the increase in world trade as a whole".

Shortly after the publication of the report of the panel

the Contracting Parties launched a programme for the Expansion of International Trade. Three committees were established to assemble data, to study the problems in detail and to make suggestions for action to the Contracting Parties. One can give the committees the following names:

- Committee I: Trade Negotiations Committee;
- Committee II: Committee on Trade in Agricultural products;
- Committee III: Committee on the Expansion of Trade of less developed countries.

4. Committee III itself calls the first three years of its existence "a fact finding stage". The Committee wanted to know: what are the articles of special export interest to developing countries and what are the obstacles hindering the expansion of the export of these products to industrialized countries?

The Committee issued five reports dealing mainly with this question and summarized these five in a special report dated 15 November 1961. Thirty products were identified as being of export interest to developing countries:

1. foodstuffs and tropical agricultural products: cocoa, coffee, tea, oilseeds and vegetable oils, cotton, tobacco and canned fish;
2. industrial raw materials and semi-manufactures: iron ores, copper, copper rollings, lead, ferro-chrome and ferro-manganese, bauxite, alumina and aluminium, timber;
3. manufactured goods:
  - a. cotton manufactures, jute manufactures, coir manufactures; finished leather, leather footwear and leather goods; sports goods;
  - b. bicycles, sewing machines, electric fans, electric motors, diesel engines, steel furniture.

The main obstacles confronting the expansion of the exports of less developed countries in these products were identified as:

1. Quantitative import restrictions
2. Tariffs. Not only high tariffs but also disproportionate differentiation in favour of imports of raw materials as compared with duties for processed goods are mentioned here as a serious obstacle to the expansion of exports;
3. Revenue duties and internal fiscal charges;
4. State monopolies.

In the light of these findings the Committee placed before the Contracting Parties ten specific recommendations.

5. From 27 - 30 November 1961 there was a meeting of Ministers or ministerial representatives from forty-four GATT-members in Geneva. In the field of "obstacles to the Trade of less developed countries" the Ministers had before them:
  1. a proposal of the United States to adopt a joint "Declaration on Promotion of Trade of less developed countries";
  2. the special report of Committee III;
  3. a "Programme of Action" submitted by a group of less developed countries;
  4. a paper submitted by Nigeria proposing duty-free entry for tropical products.

The Contracting Parties formally adopted the "Declaration". They decided too "that immediate steps should be taken to establish specific programmes for action, and where feasible target terminal dates, for progressive reduction and elimination of barriers to the exports of less developed countries". Committee III was indicated as the appropriate body to make Recommendations to the Contracting Parties on this subject. Another task of Committee III became to review action taken by contracting parties to improve market opportunities for the exports of less developed countries.

6. Many things were discussed in Committee III in 1962. While in the opinion of the Committee the exploratory stage of its work

had ended now it wanted to enlarge the scope of its work. Undoubtedly most important however was the discussion relating to a seven-point programme of action proposed by the representatives of eighteen GATT countries. The main point on the agenda of Committee III for its meetings in March/April 1963 was again a "Programme of Action" now consisting of eight points and sponsored by twenty-one (less developed) GATT countries.

The proposed "Programme of Action" together with a summary of the discussion in Committee III was submitted to the coming Ministerial Meeting.

7. In 1962, following a recommendation of Committee III, a Special Group on Trade in Tropical Products was established. The Group too submitted a report, with Recommendations to the Ministerial Meeting of 1963.
8. In their Meeting of May 1963 the Ministers of all industrialized countries, with the exception of the Ministers of the member States of the European Economic Community, agreed to a Programme of Action. The eight points are:
  1. Standstill provision; no new barriers should be erected by industrialized countries against the exports of less developed countries.
  2. Elimination of quantitative restrictions.
  3. Duty-free entry for tropical products; to be granted by 31 December 1963.
  4. Elimination of tariffs on the primary products important in the trade of less developed countries.
  5. Reduction and elimination of tariff barriers on exports of semi-processed and processed products from less developed countries, providing for a reduction of at least 50 per cent of the present duties over the next three years.
  6. Progressive reduction of internal fiscal charges and revenue duties by industrialized countries with a view to their elimination by 31 December 1965.

7. Industrialized countries shall report to the GATT secretariat in July of each year on the steps taken by them during the preceding year to implement these decisions and on the measures which they propose to take over the next twelve months to provide larger access for the products of less developed countries.
8. Contracting Parties should also give urgent consideration to the adoption of other appropriate measures which would facilitate the efforts of less developed countries to diversify their economies, strengthen their export capacity and increase their earnings from overseas sales.

It was agreed that in the first instance the Programme of Action would relate to the products identified by Committee III as being of export interest to developing countries (see page 2). The Ministers of the EEC and the States associated with the EEC stated that the first seven points of the programme only referred to measures for the elimination of barriers to trade. In their opinion more positive measures were required "to achieve a marked and rapid increase in the export earnings of the developing countries as a whole". These Ministers urged:

1. that international action should be directed to a deliberate effort to organize international trade in products of interest to the less developed countries. One should thereby take account of the different level of economic development of the countries concerned;
2. that action should be undertaken to ensure increasing exports at remunerative, equitable and stable prices for the less developed countries producing primary products.

For the same reason the Ministers of the EEC and the States associated with the Community could not agree with the conclusions of the Ministers with regard to "Free Access to Markets of Industrialized Countries for Tropical Products".

An Action Committee was established which had the task of assisting the Contracting Parties in the implementation of the Programme of Action.

Although almost every word of the Conclusions and Resolutions of the Ministerial Meeting of 1963 is of very great importance, we will mention only one thing here (with its follow-up).

9. The necessity of an adequate legal and institutional framework in relation to the work of expanding the trade of less developed countries was recognized by the Ministers. Although it took a long time to shape and implement this framework, it now exists. The new Part IV, on "Trade and Development", of the General Agreement on Tariffs and Trade consists of three articles. If one wants to understand fully the position of the developing countries in GATT it is necessary to read and reread these articles. In this place we want to cite only those parts of the New Chapter which we think are of imminent importance in the present context.

#### Article XXXVI - Principles and Objectives

5. The rapid expansion of the economies of the less developed contracting parties will be facilitated by a diversification of the structure of their economies and the avoidance of an excessive dependance on the export of primary products. There is, therefore, need for increased access in the largest possible measure to markets under favourable conditions for processed and manufactured products currently or potentially of particular export interest to less developed contracting parties.
8. The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less developed contracting parties.

Article XXXVII - Commitments

1. The developed contracting parties shall to the fullest extent possible - that is, except when compelling reasons, which may include legal reasons, make it impossible - give effect to the following provisions:
  - a accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms;
  - b refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less developed contracting parties.

Article XXXVIII - Joint Action

1. The contracting parties shall collaborate jointly, within the framework of this Agreement and elsewhere, as appropriate, to further the objectives set forth in Article XXXVI.
2. In particular, the CONTRACTING PARTIES shall:
  - a. where appropriate, take action, including action through international arrangements, to provide improved and acceptable conditions of access to world markets for primary products of particular interest to less developed contracting parties and to devise measures designed to stabilize and improve conditions of world markets in these products including measures designed to attain stable, equitable and remunerative prices for exports of such products;
  - b. seek appropriate collaboration in matters of trade and development policy with the United Nations and its organs and agencies, including any institutions that may be created on the basis of recommendations by the United Nations Conference on Trade and Development.

Chapter IV came into force on a de facto basis in February 1965. On 27 June 1966 it had been accepted by two thirds of the contracting parties and therefore came into force de jure (for those contracting parties that had accepted it). France has not (yet) signed the new Chapter IV.

10. In February 1965 the "Committee on Trade and Development" met for the first time. The main task assigned to it was to keep under continuous review the application of the provisions of Chapter IV of the General Agreement. The Committee took over the functions of Committee III and the Action Committee.

After the "fact finding stage" Committee III had already begun to study other matters than the obstacles to the expansion of trade of developing countries. The Committee on Trade and Development has continued on this course and has even broadened its purview

To give a very short impression of this evolution we shall mention here some of the subsidiary bodies the Committee established.

1. Group on Preferences to be Granted by Industrial Countries.
  2. Working Group on International Commodity Problems.
  3. Group on Expansion of Trade between less developed countries.
  4. Expert Group on Trade and Aid Studies.
  5. Expert Group on Adjustment Assistance Measures.
11. In May 1964 an International Trade Centre was established by GATT. The Centre will provide information on export markets and marketing to developing countries, help them to develop their export promotion services and train the personnel required for these services.

At present GATT and UNCTAD are discussing the possibility of establishing a joint International Trade Centre.

## CHAPTER II

The participation of the Developing Countries in the Kennedy Round.

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### The objective of the developing countries in general

12. In 1964 the exports of the developing countries were 20.5% of total world exports. The exports of these countries to the developed market economies formed 72.1 per cent of their total exports. Four markets - the United States, the EEC, the United Kingdom and Japan - imported 88 per cent of the total imports of the developed market economies from the developing countries.

The developing countries are still heavily dependent for their export earnings on the export proceeds of primary products, because about 85 per cent of their exports consists of these products.

In 1964 the value of exports of manufactures and semi-manufactures from the developing countries to their four most important markets above mentioned was only 3.37 billion dollars. But industry is also their most dynamic export sector. It is important to remember here that the largest part of these exports consists of products directly based on the processing of domestic raw materials.

The main objective of the developing countries in the negotiations of the Kennedy Round was therefore to obtain concessions from the developed countries (especially from US, EEC, UK and Japan) for products of export interest to them. We will recall here that Committee III of GATT undertook already in 1958 - 1961 "basic research" to identify these products and to investigate the existing barriers in developed countries.

13. The expectations raised for the developing countries  
Past trade negotiations within the GATT framework, and especially the Dillon-round, made clear that the "most favoured nation"

principle tended to focus the negotiations on items of special interest to dominant suppliers. Consequently, due to their overall weak position in world trade, the developing countries were almost excluded from the negotiations.

However, several "factors" raised the expectation that this would not be the case in the Kennedy Round. They are in our opinion, the following:

- a. the attention given in GATT to the trade problems of the developing countries culminating in the new Chapter IV of the General Agreement (described in Chapter I)
- b. The great tariff-cutting authority given to the President of the United States by the Trade Expansion Act, especially the authority to participate in trade negotiations on the basis of linear, across the board, reductions of tariffs.
- c. The Ministers of GATT members agreed at their meeting in May 1963 inter alia: - that the forthcoming trade negotiations shall cover all classes of products - that the negotiations shall deal not only with tariffs but also with non-tariff barriers - that the tariff negotiations shall be based upon a plan of substantial linear tariff reductions - that the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products - that in the trade negotiations every effort shall be made to reduce barriers to exports of the less developed countries, but that the developed countries cannot expect to receive reciprocity from the less developed countries.
- d. In November 1963 the Sub-Committee on the participation of the less developed countries was set up. The terms of reference of this subsidiary body of the Trade Negotiations Committee were: to deal with any problems arising in the negotiations which are of special interest to the developing countries.

e. At the twenty-first session of the Contracting Parties to the General Agreement on Tariffs on Trade (Geneva, 24 February - 20 March 1964) the major industrialized countries emphasized that they considered as one of the major objectives of the negotiations the attainment of a significant contribution to the trade of less developed countries. It is expected that the negotiations will make an important contribution towards meeting the trade problems of the less developed countries.

f. Great expectations for the developing countries are raised by the Resolution adopted on 6 May 1964 by the Trade Negotiations Committee, meeting at Ministerial level. In our opinion the most important in the present context are the following parts of the resolution: "the rate of 50 per cent has been agreed as a working hypothesis for the determination of the general rate of linear reduction" and "the Committee notes with satisfaction that all participants are prepared to consider the possibility of taking such steps as are open to them to make cuts deeper than 50 per cent in, or to eliminate completely, duties on products of special interest to less-developed countries".

The needs of the developing countries

14. In April 1964 Mr. Wyndham White <sup>1)</sup> formulated what is needed if the Kennedy Round is to make a significant contribution to the trade of less developed countries: "First of all the reductions in tariffs in industrialized countries must be deep and comprehensive. They must cover not only fully manufactured products but also semi-manufactures, which is an area in which some of the developing countries can most rapidly develop their own capacity."

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1) Statement by Mr. Wyndham White made in the plenary meeting of the United Nations Conference on Trade and Development, 8 April 1964.

"The second requirement if this aim of the Kennedy Round is to be achieved - and I emphasize again that the industrialized countries have said that this is one of the principal aims of the negotiations - is that non-tariff barriers must be properly covered".

"Thirdly and certainly not least important is the fact that the negotiations must cover - and cover adequately - the question of trade in agricultural products".

#### Participation in the Negotiations

15. Ultimately however, only 18 (or according to another classification 21) developing countries signed the Final Act of the Kennedy Round and Mr. W. Diebold calls the developing countries "relatively silent partners" in the negotiations. <sup>1)</sup>

How can one explain this?

In our opinion the basic factors are:

- I. Differences of interest among the developing countries.
- II. The overall weak position of the developing countries in world trade.

How did these basic factor manifest themselves in the course of the Kennedy Round?

We know that a thorough analysis of the course of the negotiations would be necessary to answer this question. This is very difficult for an "outsider". We can only try to give in the following pages an indicative answer to the questions raised above.

#### Ad I. Differences of interest among developing countries

16. One of the five general desiderata of the developing countries which came to the forefront in the course of the negotiations was: for some countries, consideration of the problem of compensation for loss of preferences consequent upon reductions in "most favoured nation" rates of duty. This issue was several

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1) W. Diebold jr. "Future Negotiating Issues and Policies in Foreign Trade".

times discussed in the sub-committee on the participation of less developed countries, but no common ground could be found. The developing countries receiving preferential treatment granted to them by the EEC or the United Kingdom (Association and Commonwealth) were, of course, reluctant to give up those preferences.

Especially the Delegation of India expressed several times in the course of the negotiations the fear of its Government that India would be a net loser as a result of "most favoured nation" reduction of duties in the Kennedy Round. Reductions in the developed country markets where India enjoyed preferences would involve for that country loss of foreign exchange earnings. On the other hand, reduction of "most favoured nation" duties by other industrialized countries would in no way assure India of increased access to those markets to compensate for these losses.

The existence of special preference regimes militated so against the overall Kennedy Round objective of trade liberalization in favour of developing countries. This is demonstrated by the following two "results" of the Kennedy Round:

- 1) Nearly two thirds of total United Kingdom preferential trade from Commonwealth less developed countries participating in the Kennedy Round (£ 205 million) is not affected by offers of tariff reductions.
- 2) Only one of the African States associated with the EEC signed the Final Act of the Kennedy Round (Nigeria!). The only explanation is in my opinion that the associated States could assume that the delegation of the EEC would take due account of their interests in the negotiations.

17. Differences of interest among the developing countries also prevented a strengthening of their bargaining position by negotiating jointly.

18. Differences of interest among developing countries caused by existing preferential regimes were very clearly apparent in

the case of tropical products. We should therefore like to deal here briefly with the negotiations concerning this category of product.

The general desideratum of the developing countries was: maximization of reductions of tariff and non-tariff barriers on tropical products (Free access was already requested by the Programme of 1963 - see Chapter I).

In 1965 it was decided that the Special Group on Tropical Products would operate as a negotiating body within the framework of the Kennedy Round. The terms of reference of the Group were: to pursue further the question of trade in tropical products with a view to working out arrangements and procedures for their treatment in the trade negotiations". Eight developed and eleven developing countries became member of the Group on Tropical products. However the Group was never a real negotiating body: negotiations did not take place within the Group, nor did it negotiate on behalf of the interested countries. The Group met only a very few times. The majority of the participants in the Kennedy Round agreed that the aim should be duty-free entry for tropical products, but it became clear that joint action would be necessary to reach this aim.

The possibilities of joint action by all developed participating countries were thoroughly examined. But this seemed impossible because no agreement could be reached as to the best form of action which would permit the removal of existing preferences. (For instance, no agreement could be reached on a procedure for joint action proposed by the Nordic countries).

The offers on tropical products were at last tabled in the middle of 1966. The EEC tabled its offer after consultation with the African Associated States. It consisted mainly of the binding in GATT of already applied rates.

The United Kingdom and Canada withdrew part of their original offer in the final stage of the negotiations. Their original offers were namely contingent on adequate joint action by other industrialized countries.

The Trade Expansion Act authorized the President of the United States to reduce tariffs on tropical products down to zero, but only if adequate action were taken by the EEC. Legislative requirements so forced the United States to withdraw part of its offered duty eliminations on tropical products.

In several cases the duty on tropical products has a protective function.

The same product or a substitute is in this way protected against full competition of the tropical product. Examples are: sugar, certain fruits, rice, vegetable seeds and oils. This was the second main difficulty in the negotiations concerning tropical products.

Ad II. The overall weak position of the developing countries in world trade.

19. In the final stage of the negotiations developing countries declared that they had had the feeling, throughout the negotiations,
- 1. that they were marginal elements in the negotiations,
  - 2. that if they did obtain concessions it was only as a result of what was agreed amongst others,
  - 3. that the main problems being dealt with were those interesting only the major trading countries,
  - 4. that there had been less opportunity of solving the problems of developing countries.

With respect to the last two points it is necessary to remember that the lack of progress in the negotiations concerning trade in agricultural products and non-tariff barriers hampered the full participation of many developing countries in the negotiations.

Non-tariff barriers of importance to developing countries were dealt with at length only in the Group on anti-dumping policies and in connection with the extension of the Long Term Arrangement on Cotton Textiles. The other groups which were set up to deal with non-tariff barriers met only once. Ultimately it was decided to leave these and other non-tariff barriers to bilateral negotiations.

With respect to agriculture we should like, as an illustration, to mention only one point: at a very late stage of the negotiations there was only one real debate about sugar, concerning a very limited proposal of the EEC.

More general is the impact of the stagnation in the negotiations of the Kennedy Round caused by the crisis in the EEC. Mr. E. Wyndham White expressed on 8 July 1966 the feelings of the developing countries concerning this stagnation in the following words: "The long delays which have intervened in the progress of the negotiations have, I know, occasioned concern to some of these (developing) countries lest their problems would be set aside and receive insufficient attention". <sup>1)</sup>

Still more general is the lack of progress on the negotiations between the industrialized countries. In the discussion at the twenty-third session of the Contracting Parties (24 March - 6 April 1966) representatives of the developing countries stated that this lack of progress had prevented the developing countries from participating fully in the negotiations so far.

20. Points 1 and 2 mentioned above especially make us raise the question: how could the developing countries defend their interests and how could they bring their desiderata to the forefront in the course of the negotiations?

Does their weak position in world trade, and for that reason a weak position in trade negotiations, again become clear in

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1) Statement of Mr. E. Wyndham White at the opening of the meeting of the Trade Negotiations Committee on 8 July 1966.

the Kennedy Round? We pose these questions, remember, against the background of the question: why did so few developing countries sign the Final Act and why can one call them relatively silent partners in the negotiations?

21. Before we try to give an impression of the role the developing countries played in the negotiations and of the main problems they encountered in the Kennedy Round we first have to mention the three remaining general desiderata of the developing countries:
1. the possibility of eliminating from exceptions lists products of special interest to the less developed countries,
  2. the possibility of making tariff reductions greater than those provided for under the linear rule on these products,
  3. the possibility of implementing tariff reductions on these products without the phasing provided for under the general rule.

In the rest of this Chapter we shall concentrate our attention on these three general requests and the problems connected with them.

22. In May 1963 it was agreed that there should be a bare minimum of exceptions (on the rule of linear reduction), which should be subject to confrontation and justification. In May 1964 it was decided that for the method of confrontation and justification one would take account of the need to safeguard the confidential nature of the negotiations.

In November 1964 the following "Linear reduction countries" tabled lists of exceptions: the United States, the EEC, the United Kingdom, Japan and Finland.

Representatives of Norway, Sweden, Denmark, Switzerland and Austria indicated that, subject to obtaining reciprocity from their negotiating partners, they would not table lists of exceptions.

On 2 July 1964 the Trade Negotiations Committee decided that

less developed countries should prepare lists of items which they wished to be taken into account by the developed countries in preparing their exceptions lists and that these lists should be sent in good time, well before 16 November 1964. The list of products under consideration in Committee III was used as a starting point for determining which were the products of special interest to the exports of the developing countries. This list was "supplemented" by the lists of individual developing countries.

In January/February 1965 a series of meetings was held to carry out the process of justification of the exceptions lists on a multilateral basis between linear countries. The developing countries were consequently were silent partners at this stage of the negotiations.

23. Non-reciprocity. The Trade Negotiations Committee agreed in May 1964 that the contribution of the less developed countries to the overall objective of trade liberalization should be considered in the light of the development and trade needs of these countries.

It was suggested that the participating less developed countries should scrutinize their own tariff and other commercial policy arrangements with a view to considering what changes might be beneficial both in the interest of their own development and also the trade of other countries, in particular other less developed countries.

Representatives of some less developed countries suggested that the general increase in imports into the less developed countries of products needed for their development which should result from a successful conclusion of the negotiations, coupled with an assurance by them of a disciplined commercial policy, should be regarded as a measure of reciprocity on their side.

24. Procedure for participation. On 18 March 1965 the Trade Negotiations Committee adopted the Plan for the participation of the less developed countries in the trade negotiations. It was in several respects a compromise after long discussions in and outside the Sub-Committee on the Participation of the Developing Countries.

- A list would be drawn up composed of items contained in the lists submitted by individual less developed countries.
- The "linear countries" would make information on the exceptions on items in this list available to less developed countries, and afterwards an examination of these excepted items would take place.

The developed countries did not want to make the whole of the exceptions lists of industrialized countries available to the developing countries. Developing countries had argued that this would raise a difficulty for them, because the list of products of interest to them was by no means exhaustive. While the question of synthetics and substitutes existed, they would, in their opinion, obtain a clear picture of the impact of the exceptions on their trade only by seeing the complete lists.

- Before the developing countries could take part in the examination of the partial exceptions lists they had to notify their readiness to table a statement of offers. The statement of offers of less developed countries had to take place immediately after the examination of the exceptions by them with an exception for less developed countries having a predominant interest in exports of agricultural products.

Developing countries having tabled a statement of their proposed contributions would thereafter take part in the trade negotiations and would receive the full exceptions lists.

In discussion preceding the adoption of the Plan it was argued from the side of developed countries that the agreement by the Trade Negotiations Committee (April 1964) on procedures

for confrontation and justification related to those developing countries which were participating. Some developed countries felt a difficulty in accepting that developing countries were full participants before the extent of their contribution was known. An argument against an examination of exceptions lists by developing countries before they had made a statement of their contribution was that a developing country, once it had seen that no item of interest to it was contained on any exceptions list, could conclude that there was no need for it to contribute to the negotiations.

It was suggested that contributions of developing countries could be set at a level reflecting an assumption that no item of interest to the contributing country was in fact on an exceptions list.

Developing countries argued that only after having seen the exceptions lists could they evaluate the probable effects of the trade negotiations on their trade and development prospects which would in their turn, determine the extent of their contributions.

- It was decided that when making available information on their exceptions lists the "linear countries" would indicate their readiness to make offers in accordance with the offers which the developing countries in their eyes could make. At the same time they could make suggestions as to the offers which participating less developed countries might make as a contribution to the objectives of the negotiations.
- Each participant in the negotiations would have the right to decide whether a basis for negotiation existed.

25. Examination. The special examination of exceptions on products indicated by less developed countries as being of special interest to them was held in July 1965. It was thus an examination of partial exceptions lists. It was open to developing countries (which had indicated their readiness to make an offer) to ask what reasons led to the inclusion of items on exceptions lists.

It was demonstrated that a number of items of particular interest to less developed countries had been excepted from the linear cut, and that there was therefore a gap between the declared intentions of industrialized countries and their performance in this area.

Full participation and bilateral negotiations.

26. How could the developing countries try to close (as far as possible) the above mentioned gap and bring their other desiderata to the forefront? As we know already from the Procedure (par. 24) it was first necessary for them to make a statement of their offer to become full participants in the negotiations. Afterwards they could make their negotiating requirements known in detail to the linear countries and enter into bilateral negotiations with them.

In the report on the Kennedy Round of the Secretary-General of UNCTAD one reads that after July 1966 the negotiations between developed and developing countries continued sporadically.

This was especially the case until September 1966, because during that time the negotiations almost completely stagnated. In July 1966 Mr. E. Wyndham White formulated the five desiderata of the developing countries we have already mentioned. And speaking about the developing countries he concludes: "it must be our endeavour in the coming weeks and months to translate into more specific terms, and in particular into terms of particular products of export interest to the less developed countries, these desiderata expressed in general terms".

At that time several developing countries had already expressed their desiderata in specific terms: in terms of products. In the second part of 1966 it was necessary for developing countries to specify with greater precision and with more supporting information their requests to individual developed participants. In December 1966 fifteen developing countries

had sent 85 lists with specific requests to 14 developed countries.

In December 1966 twenty-one developing countries had become full participants in the negotiations by tabling a statement of their offer. Ten of them included an offer of tariff concessions on specified products in their statements. The remaining countries made more general statements or notified specific action taken to liberalize their import trade without offering to bind these measures in the GATT.

Developing countries were urged several times to define their contributions to the objectives of the negotiations in a more concrete manner.

Just here we can see the real difficulties as far as bilateral negotiations between developing and developed countries are concerned. In our opinion it is possible to distinguish two different cases.

- a. Because of the exceptional and weak position of a developing country in trade no reciprocity is requested. A more or less symbolic offer of a certain less developed country is accepted by the developed country concerned. If this is the case real negotiations are not possible and the developing country may only be able to put forward its specific wishes and requests in the best way.
- b. Some industrialized countries made, as foreseen in the agreed procedures, suggestions as to action which might be taken by developing countries as their contribution to the negotiations. In this case real concessions of that developing country were often demanded. Certain concessions of developed countries were made conditional on concessions of developing countries. So there were naturally real negotiations, but the principle of non-reciprocity was in danger.

The principal difficulty was that developed countries negotiated among themselves on the basis of reciprocity. The developed countries referred to this hard fact several times in their bilateral contacts with less developed

countries.

They stated that on that reciprocity their final attitude to the desiderata of the less developed countries would depend.

27. Multilateral action? In July 1966 it was suggested that the Sub-Committee on the participation of less developed countries, after a round of bilateral negotiations between developed and developing countries, should consider what multilateral action it might take to achieve its objectives. There was even a strong sentiment in the Sub Committee that there would be a need for multilateral action. In October 1966 it appeared that too short a time had elapsed since the summer break to consider what multilateral action it might take.

It was then agreed that the secretariat should assist developing countries to arrange meetings with developed participants, while a large number of bilateral meetings still had to be held. In the coming months the secretariat assisted developing countries too with the preparation of specific requests lists. The Sub-Committee did not meet between 11 October 1966 and 4 May 1967. Then the possibility of multilateral action was mentioned only once more. Since then no more has been said about this subject, so that we can conclude that it did not seem possible to achieve multilateral action to ensure that the maximum results were obtained for the developing countries.

28. More than 50 per cent and non-phasing. We think it is necessary to deal for a moment separately with this subject. What did the developing countries ask? It is necessary to distinguish in this context between "products of interest to developing countries" and "products of special interest to developing countries".

Developing countries argued that previous negotiations on an item-by-item basis had led to a reduction in duties on "products of interest" while tariffs on "products of special interest" remained almost as high as when GATT was established.

This indicated that the products in question are those of which the developing countries are the dominant suppliers; for example, raw materials, tropical products and hand-made and other highly labour intensive products. The developing countries asked more than 50 per cent reductions of tariffs or complete elimination of duties on these products and immediate implementation of these concessions.

In the course of 1966 individual developing countries sent to individual developed countries lists of products for which they asked more than 50 per cent and non-phasing. Afterwards the developing countries, with technical assistance from the secretariat, drew up a consolidated list; this list was presented to representatives of developed participants at a special meeting held in April 1967. We here recall that in May 1964 all participants declared that they were prepared to make cuts deeper than 50 per cent in duties on products of special interest to less developed countries. Afterwards it turned out that (only) one participant, the United States, had a legal difficulty in this matter (limitation of authority by the Trade Expansion Act.).

The question was at last more or less extensively discussed during the last stage of the negotiations (May/June 1967). By that time it was apparent that except in the case of a number of tropical products no particular effort had been made in the negotiations to offer cuts deeper than 50 per cent and advanced implementation. A developing country expressed the hope that all developed countries would take joint action in this matter. Mr. E. Wyndham White said in his statement to the press on 15 May 1967 that "all participants have declared their determination to reach a decision on this point by the time the Protocol embodying the results of the trade negotiations is open for signature". But this didn't seem possible in the short period between 15 May and 30 June. So it was agreed at the last meeting of the Sub Committee on the Participation of less developed countries that a positive result should be reached on this matter before the first tariff cuts came into effect on 1 January 1968.

29. Final phase. Before the negotiations of the Kennedy Round entered into their final phase, a new request of the developing countries was made to the developed countries. This request was: to avoid the possibility that offers of developed countries on products of interest to developing countries would be withdrawn in the final phase of the negotiations. Of course it was also asked that the developed countries would, when drawing up their positive offers lists, give maximum regard to the existing requests of the developing countries. In connection with these requests attention was once more asked for the disproportionate tariff differentiation still existing in many cases between raw materials and the products made from these raw materials.

Particular attention was asked for requests concerning products for which a developing country is the principal supplier and where developing countries, taken together, account for a large percentage of all imports into the developed country in question.

Developed participants had already indicated that they might ultimately be forced to withdraw offers on particular products. These countries declared that, when they were forced to withdraw initial offers, they would to the greatest extent possible take into account the interests of the developing countries. Although these products may be of interest to developing countries, they stated, quite rightly, that their principal suppliers are, almost without exception, other developed countries. The maintenance of these offers would therefore depend on their reaching agreement with these principal suppliers, with whom they were negotiating on the basis of reciprocity.

So the Kennedy Round took on, in the early part of 1967, the character of item-by-item bargaining among the developed countries on items on their exceptions lists (inclusive of possible new withdrawals).

A succesful conclusion of the Kennedy Round depended from that time on the achievement of a "package deal" with a

mutual balance of concessions between developed countries. The developing countries could only go on with trying to influence the negotiations through bilateral negotiations while the developed countries were readjusting their offers to achieve the above-mentioned balance. Especially in the ultimate last stage of the negotiations before the conclusion of the "package deal" the developing countries had a feeling of isolation in respect of what was actually happening. In the first days of May it emerged that the process of adjustment of negotiating positions between the industrialised countries endangered a number of concessions to less developed countries. Most developed countries were not in a position to table their positive offers. These countries were prepared to inform the developing countries in bilateral talks about the actual situation with respect to products of particular interest to them.

### Chapter III

#### The results of the Kennedy Round for the developing countries.

30. In the Kennedy Round the participating industrialized countries made duty reductions on 70 per cent of their dutiable imports (excluding cereals, meat and dairy products).

About 65 per cent of these tariff cuts were 50 per cent or more.

About 20 per cent were between 25 en 50 per cent.

Duty reductions affect dutiable imports in the various sectors differently: chemicals 93 per cent, pulp and paper 92 per cent, machinery, transport equipment and precision instruments 91 per cent, raw materials (excluding agricultural raw materials and fuels) 83 per cent, base metals (excluding iron and steel) 81 per cent, other manufactures 81 per cent, textiles and clothing 65 per cent, iron and steel 63 per cent, non-tropical agricultural products 49 per cent, tropical

products 39 per cent, fuels 14 per cent. Not only the range of items affected, but also the depth of the tariff cuts are below average in the last five sectors.

On 30 June 1967 Mr. Eric Wyndham White declared that the results of the Kennedy Round for the developing countries were less impressive (than the overall results). He bases this appraisal on the tariff cuts for manufactured goods of which the developing countries have presently significant exports. Fifty-one per cent of their dutiable exports of manufactured goods will benefit from tariff cuts by the industrialized countries of 50 per cent or more, and some 25 per cent from tariff cuts of less than 50 per cent. The results for the developing countries with respect to their agricultural exports were then not yet calculated, but Mr. E. Wyndham White stated that the results were not impressive for farm products generally.

31. The first part of this chapter is based on the report of the Secretary-General of UNCTAD:

"The Kennedy Round: Preliminary Evaluation of Results, with Special Reference to Developing Countries".

Only the tariffs of the EEC, the United States, the United Kingdom and Japan are examined. They were not only the main participants in the Kennedy Round but are also the four main export markets of the developing countries, as was already mentioned above.

The second part of the report will seek to give an impression of the change in the tariff profiles of the four markets.

32. A. The Change in tariff profiles in general

One can compute the average tariffs of US, UK, EEC and Japan, on categories of products before and after the Kennedy Round. The averages were derived from a sample of 500 items represen-

tative of the import trade of the industrialized countries.

The weight given to every categorie of products (horizontal axis in Chart I) is proportionate to the total 1965 imports of all OECD countries from the world (including intra-trade within the OECD area). Each sample item represents about \$ 240 million of total OECD trade (this is the "standard" weighting pattern).

The weight given to each market is proportionate to each customs area's import trade in 1965 from non-socialist countries of semi-manufactures and manufactured products. The result is the following weighting of the four tariffs in the composite averages: United States 45 per cent; EEC 37 per cent; United Kingdom 12 per cent; Japan 6 per cent (see Chart I).

Note that no averages were computed for "supported foodstuffs" (part of SITC 0); the major items are grains, sugar etc.

33. B. The Change in tariff profiles with respect to the developed and with respect to the developing countries.

Chart II-A illustrates the combined tariff profile (of "the" four markets) facing OECD countries before and after the Kennedy Round. The horizontal scale reflects the relative importance of the product categories to industrial countries; the "length" of each category is proportionate to total 1965 imports of OECD countries from within the OECD area.

The concessions on the items of the sample have been re-weighted (at SITC 2 - digit level) to take account of their importance in intra OECD trade.

For Chart II-B the same procedure has been followed, but in this case with respect to "Products of Interest" to developing countries. The average tariff rates and concessions on products of interest to developing countries have been reweighted (at SITC 2 - digit level) by the value of 1965 OECD imports

CHART I: COMBINED TARIFF PROFILE

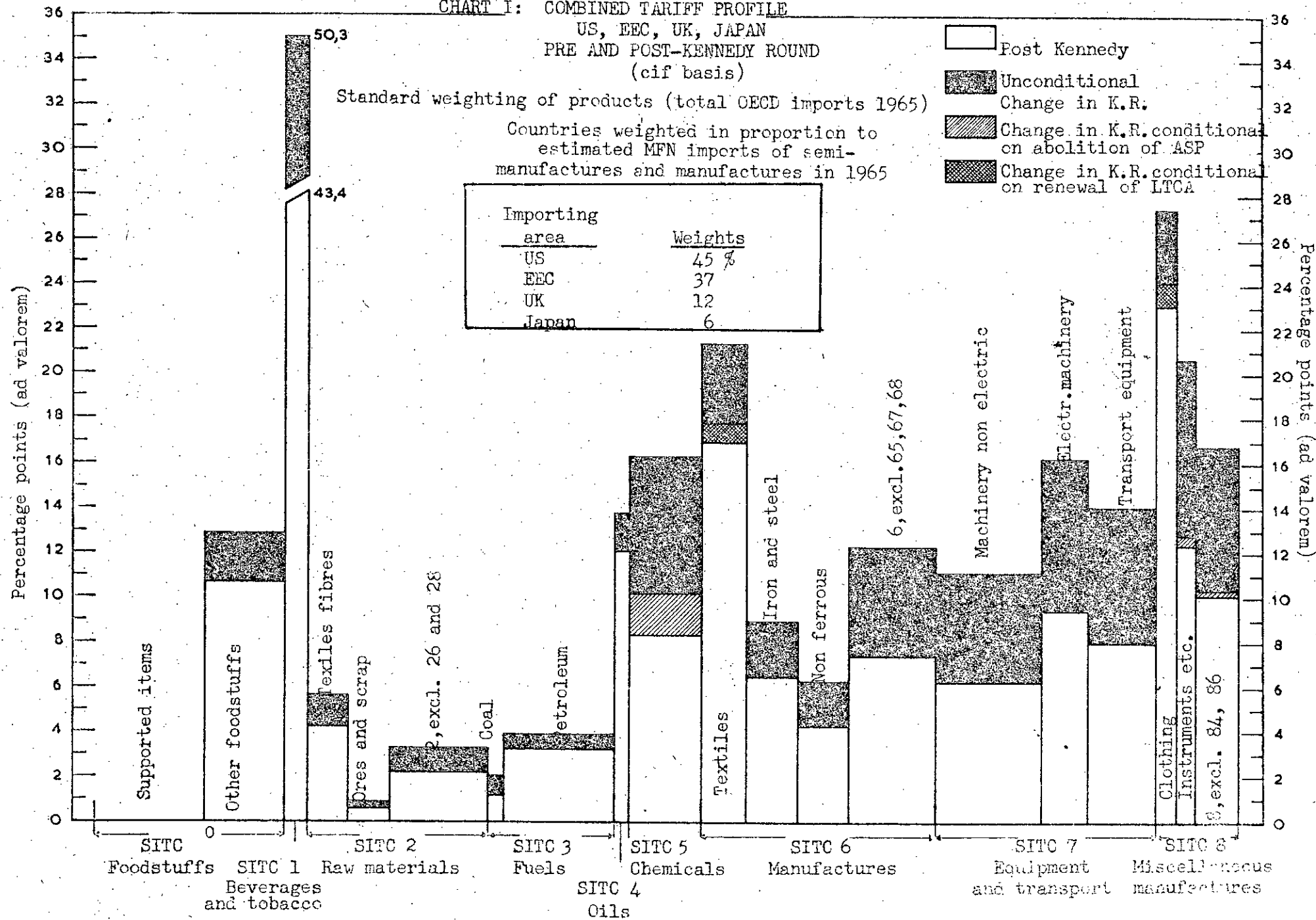
US, EEC, UK, JAPAN  
PRE AND POST-KENNEDY ROUND  
(cif basis)

Standard weighting of products (total OECD imports 1965)

Countries weighted in proportion to  
estimated MFN imports of semi-  
manufactures and manufactures in 1965

Importing area	Weights
US	45 %
EEC	37
UK	12
Japan	6

- Post Kennedy
- Unconditional
- Change in K.R.
- Change in K.R. conditional on abolition of ASP
- Change in K.R. conditional on renewal of LTCA



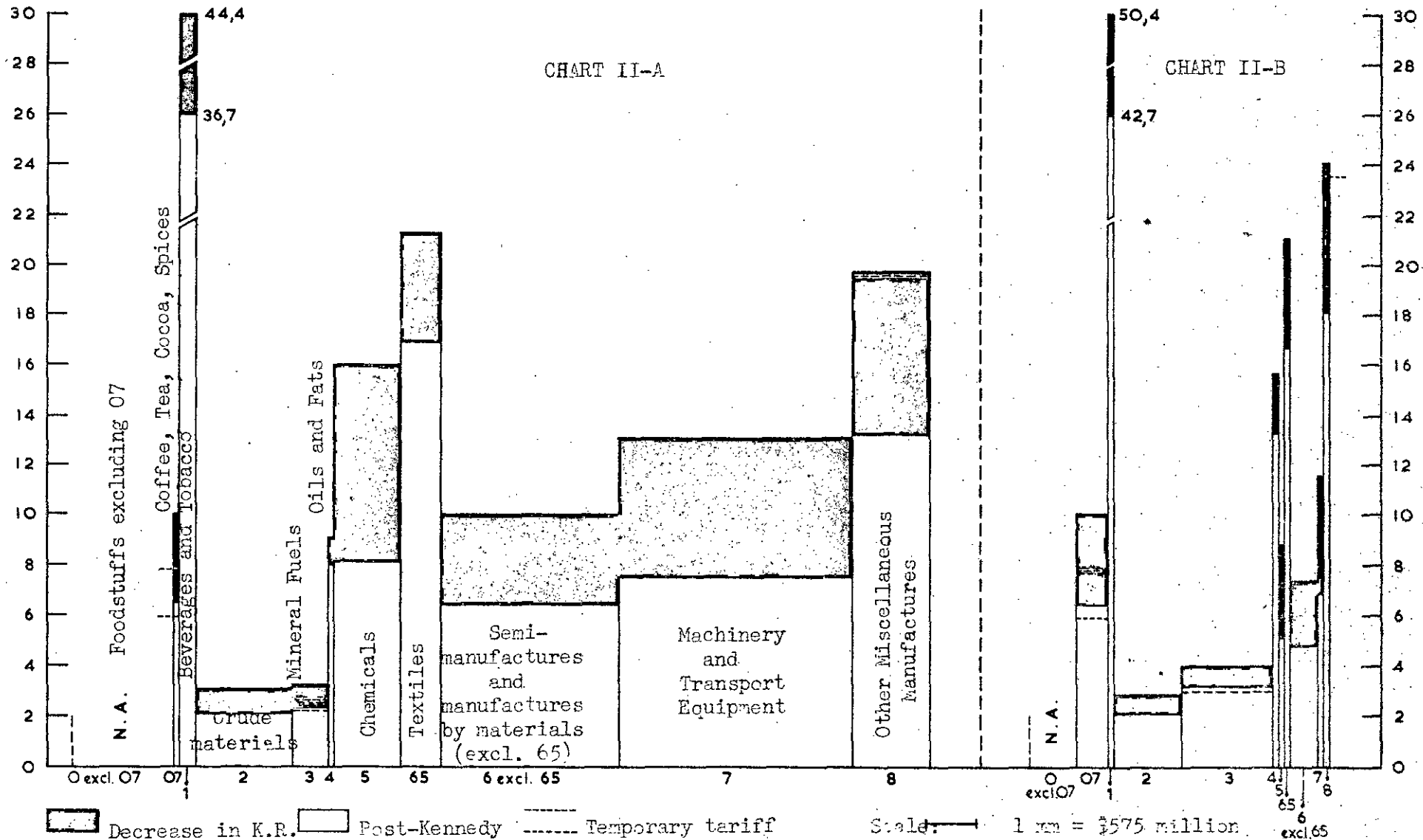
# CHART II: COMBINED TARIFF PROFILE FACING OECD AND DEVELOPING COUNTRIES

EEC, US (cif), UK (MFN) and JAPAN.

(Countries weighted in proportion to estimated MFN imports of semi-manufactures and manufactures in 1965)

Average tariffs on all products, weighted by OECD countries' total 1965 imports (including preferential intra-trade) from OECD countries

Average tariffs on "products of interest", weighted by OECD countries' 1965 imports from developing countries



from all developing countries. A note on the "Products of Interest" concept is necessary. We have already seen in the previous chapter that in the course of the Kennedy Round a list has been drawn up of products of interest to developing countries.

This list has not completely been used here. In the first instance: the list has been amplified as a result of an UNCTAD questionnaire to developing countries. In the second instance: a trade qualification was introduced; items from the source list were included only if they belonged to 3- or 4-digit SITC groups in which OECD imports in 1965 from at least one of the four main developing regions were valued at, as a minimum, \$ 1 million, and a few items of obvious export interest which were not on the original lists were added.

This procedure of excluding the products of potential export interest to developing countries has also been followed by GATT summarizing the results of the Kennedy Round for the developing countries.

34. The graphical illustration of Chart II is summarized, in terms of average percentage cuts, in the following table:

Table I - Percentage reductions in the Kennedy Round

	SITC Sections 5 - 8		SITC 07 and 1 - 8	
	Tariffs facing developing countries	Tariffs facing developed countries	Tariffs facing developing countries	Tariffs facing developing countries
EEC	28 (26) *	37 (36)	37 (25)	36 (36)
United St.of Am. (c.i.f.)	28	39	18	37
Un.Kingdom (MFN)	30	38	31	38
Japan	33	41	13	31
Composite	29 (28)	38 (38)	26 (20)	36 (36)

\* The bracketed figures are the reductions in "applied" rates.

35. What will be the effect on trade flows of the lowering of trade barriers in the Kennedy Round? That is the question that has to be answered for a completely correct evaluation of the results. Very detailed analysis is necessary for such an evaluation. Not only the competitive strength of the same industry in various countries has to be analyzed, but also all other factors that now, and in the future, affect trade flows have to be taken into account. This is an almost impossible task. Therefore we must be content, despite its limitations, with the calculations which relate tariffs (and tariff changes) to trade in terms of the quantitative importance of different products. Nevertheless some general conclusions can be drawn from the calculation, the results of which have been summarized above.

36. Let us look once again at Chart II-A. It is immediately seen that tariff cuts were greatest in certain advanced technology sectors, the very sectors in which trade among developed countries has expanded most rapidly in recent years. The four main participants in the trade negotiations made (on average) tariff cuts of more than 40 per cent in three broad categories (weighted by intra-OECE trade pattern and assuming implementation of the "American Selling Price package" for chemicals):

chemicals	49 per cent
machinery and transport equipment	43 per cent
Miscellaneous manufactures (SITC 8) excluding clothing	41 per cent.

The conclusion drawn in the UNCTAD report is that the expansion of world trade will continue to increase most rapidly in high technology and high value added industrial products, mainly traded among the industrial countries themselves. It is expected that this "trade-creation effect" as such (or:

ceteris paribus) will cause incremental growth in the developed countries. In recent years we have seen that the export earnings of the developing countries heavily depend on the rate of economic growth in the industrialized countries. The reasoning here is: "trade-creation" results in more rapid growth in the developed countries and this results in more imports from the developing countries. Reservation is however necessary in the present context, and the UNCTAD report argues as follows: "This optimistic expectation should, however, be tempered by certain additional considerations:

- a. the products expected to show the most intensification of trade are likely to have a lower-than-average component of imports of raw materials and semi-finished products from developing countries;
- b. the expanded trade opportunities in sophisticated chemicals could be expected to accelerate present tendencies toward substitution of synthetics for natural products produced by developing countries;
- c. One corollary of the more rapid trade expansion among industrial countries is that the relative share of developing countries in world trade will continue to decline unless (1) trade among developing countries is drastically increased by regional integration and other measures and/or (2) special measures (e.g. non-reciprocal preferences) are adopted to encourage developing countries to compete more actively in high-growth sectors of world trade".

Ad consideration (a). While the argument runs via "economic growth" it would have been more correct to say that the "high-growth sectors" of the industrial countries are those with high added value. Of course these sectors are often the same as those of "consideration (a)".

Ad consideration (c). One would have to compute for both groups of countries (industrialized and developing) the effect

of the Kennedy Round on the expansion of their trade and the effect of this expansion on their growth. If the Kennedy Round turned out to have a greater positive effect on the economic growth of the developed countries than on the growth of the developing countries, than as a result of these trade negotiations the "widening gap" would widen still more.

If one concludes, as the Secretary-General of UNCTAD does in his report, that as an effect of the Kennedy Round the relative share of the developing countries in world trade will decline, than one can only regard this as an indication that the Kennedy Round will have a greater positive effect on the growth of the industrial countries than on the economic growth of the developing countries.

In any case it is evident that in the past (and at present) a lack of export opportunities (and import possibilities) hampered rapid economic development. In article XXXVI of the new Part IV of the General Agreement this is recognized in the following points:

"2. There is a need for a rapid and sustained expansion of the export earnings of the less developed contracting parties".

"6. Because of the chronic deficiency in the export proceeds and other foreign exchange earnings of less developed contracting parties, .....

37. Let us with this in mind look once again at Table I, the summary of Chart II.

Tariffs facing developing countries were on average cut by only 20 per cent, if one disregards the "changes" made by the EEC, which merely consolidated suspensions already in effect; if one wants to see these consolidations as a result of the Kennedy Round, then the average cut is 20 per cent. One had to compare this result with the average cut of "tariffs facing developed countries" of 36 per cent.

Looking only at the semi-manufactures and manufactures (SITC 5-8) the disparity is still substantial: average cut of 28 per cent for developing countries as against 38 per cent for developed countries. These discrepancies in average tariff cuts can be explained by two effects:

1. "type of product effect" products of interest to developing countries received on the average smaller reduction than other products;
2. "composition - of - trade effect": items on which cuts were lower, on average, account for the bulk of developing countries, exports.

38. It is of course of great interest to know the separate importance of the two different effects. The second effect (the special composition of the exports of developing countries) has been excluded from the computations in Table II below. This table is namely a summary of chart I, and the trade pattern used for that chart is: total OECD imports 1965.

Percentage reductions in the Kennedy Round					
		SITC sections 5-8		SITC sections 0-4 <sup>1</sup>	
		P.I.	Other products	P.I.	Other products
E E C	32 (30) <sup>2</sup>	39 (38)	29 (26)	37 (37)	
United States (c.i.f.)	30	46	23	46	
United Kingdom (MFN)	31	42	29	41	
Japan	36	43	16	41	
Composite	31 (31)	42 (42)	25 (24)	41 (41)	

- 1) Excludes supported foodstuffs
- 2) Bracketed figures show the reduction in "applied" rates.

So the general conclusion may be drawn that "the deepest concessions during the Kennedy Round were concentrated in areas of least interest to the developing countries".<sup>1)</sup>

39. This conclusion can still be differentiated. The SITC categories shown in chart I can be distinguished, on the basis of the sample distribution of "Products of Interest", as "predominantly P I", "predominantly non- P I", and "mixed". Eight categories can be designated as "predominantly P I". Average tariffs are generally low or non-existent for three of these categories: crude materials, petroleum and non-ferreous metals. For the remaining five predominantly P I categories: foodstuffs (other than supported items), beverages and tobacco, oils and fats, textile products and clothing, the pre-Kennedy Round average tariffs were, in general, relatively high. The tariff reductions in the Kennedy Round were smaller for the products of these categories than the average overall reductions. As a consequence the average tariff rates for these categories are now still more above overall averages rates than before the Kennedy Round.

The "mixed" categories are iron and steel, and chemicals. As regards the iron and steel sector: the tariff cuts of the four customs areas were smaller for Products of Interest than for other products. As regards chemicals: the Products of Interest obtained noticeably smaller reductions in two of the four customs areas under consideration.

- 1) The above mentioned Report of the Secretary General of UNCTAD.

40. "Effective tariffs" constitute a subject that has received, quite rightly, much attention in recent years. The adverse effect of (pre-Kennedy Round) escalation of tariffs in developed countries according to the stage of fabrication, on the expansion of exports of manufactured products from developing countries, has been dealt with by several writers.
- What has happened to "effective tariffs" in the Kennedy Round ? The report of the Secretary-General of UNCTAD states: "Recent provisional calculations by the UNCTAD secretariat of effective tariffs before and after the Kennedy Round indicate that, in general, the large percentage reductions in nominal tariffs were approximately matched by large percentage reductions in effective tariffs. However, in all four MFN schedules examined, the pre-Kennedy Round average effective rates on sectors of interest to developing countries <sup>1)</sup> were higher than the average effective rates on other sectors. Moreover, as in the case of nominal tariffs, the reduction of effective tariffs was less for sectors of interest than for other sectors. The discrepancy in effective rates between the two types of sectors was therefore even more pronounced after the Kennedy Round than before.

1) "Sectors of interest to developing countries" were defined for present purposes as those sectors of the EEG standard input - output table in which 70 per cent or more of the sample items were already classified as "products of interest".

In a few sectors, and notably in sectors of interest to developing countries, the pattern of reduction or non-reduction of nominal tariffs appears to have led to some absolute rise in effective rates of protection."

41. We shall conclude this chapter with some remarks on the special arrangements of the Kennedy Round concerning wheat, cotton textiles and anti-dumping.

42. Agreement in principle was reached in the negotiations on the renewal of the International Wheat Agreement of 1962. A three year programme of food aid to developing countries was connected with this agreement. What is the meaning of this twofold arrangement for the developing countries?

- a. The basic minimum price for wheat has been raised by 17 per cent. It cannot be predicted exactly what this will mean for real wheat prices. One can argue that the rising price trend of the last two years has been followed. Nevertheless the conclusion may be drawn that by the renewal of the International Wheat Agreement wheat prices on the world market have been brought to a permanently higher level. This means for the developing countries (except for the Argentine as an exporter of wheat) that they will have to pay more in the future for their commercial imports of wheat.
- b. Compensation for these higher prices and (hopefully for every individual developing country ) more than that will be given by the arranged food aid of 4.5 million tons of wheat a year (provisionally agreed upon for a period of three years). The question must be raised however: will this food aid be really additional?

We quote here Paul Lobby!

"La nécessité pour les Etats-Unis d'économiser sur leur aide à l'étranger, a facilité finalement l'adoption d'un programme d'aide de 4 millions et demi de tonnes de céréales .....!!

43. On 3 April 1967 it was agreed by the thirty signatories to extend the Long Term Arrangement on Cotton Textiles (LTA) by another three years until 30 September 1970. How must one evaluate the renewal of this arrangement (and the tariff cuts which were connected with it) in the light of the expansion of exports of developing countries. This depends on the evaluation of:
- a. the coming into existence of the LTA in 1962,
  - b. the content and the working of the arrangement,
  - c. the extension of the arrangement in 1967.

Ad a. The LTA was agreed upon in 1962 after a period of quite rapid expansion of exports of cotton textiles from the low-wage countries to the industrial countries. Were only those two alternatives sketched by Mr. E. Wyndham White really the possible ones? He stated at the opening of the major review of the Long Term Arrangement on 6 December 1965; "The choice facing the international trading community at that time was between international co-operation in cotton textiles or unilateral action; in other words some restriction on trade under international supervision and collaboration or unilateral trade restriction".

Ad b. In the preamble of the Arrangement of 1962 it is recognized that co-operative and constructive action to develop world trade should be designed to facilitate economic expansion of less-developed countries "by providing larger opportunities for increasing their exchange earnings from the sale in world markets of products which they can efficiently manufacture".

As regards the content of the Arrangement:

The EEC for instance undertook to raise its import quotas for 1962 gradually so that they would be 88 per cent larger for the last year of the arrangement. The enlargement would however be much smaller if imports caused or threatened to cause (in the opinion of the importing country) "market disruption". Nevertheless an enlargement of quotas by 88 per cent over a period of five years looks rather good, but, according to S.J. Wells <sup>1)</sup> "in 1963 only just over 4 per cent of textile imports into the EEC came from developing countries".

As regards the working of the Arrangement:

We quote from the above mentioned statement of Mr. E. Wyndham White: "there has been extensive use of the restraint provisions of the Arrangement. These provisions have not been used sparingly as was envisaged when the Arrangement was negotiated". And nearly at the end of this statement he said: "Despite a general increase in exports it is reasonable to assume that the operation of the Long Term Arrangement has limited the trade of less developed countries and Japan in certain categories of cotton textiles. Further, contrary to what was the hope and expectation when the Arrangement was negotiated, it is clear that exports of cotton textiles from the less developed countries are still mainly concentrated on the same markets in the industrialized areas as they were before the Arrangement".

The value of all cotton textiles exports from participating less developed countries was 40 per cent higher in 1964 compared with 1961 (a comparison with 1960 would however show a much smaller increase). During the period 1961-1964 imports of cotton textiles into the participating industrialized countries of Western Europe and North America from all

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1) Sidney J. Wells: "The EEC and Trade with Developing countries" Journal of Common Market Studies Vol. IV Dec. 1965 Number 2.

participating less developed countries increased by nearly 180 million dollars.

Ad c. In article one of the LTA of 1962 the participating countries declare that they "are of the opinion that it may be desirable to apply, during the next few years, special practical measures of international co-operation ....."

In paragraph one of article two of the LTA one reads:

"Those participating countries still maintaining restrictions inconsistent with the provisions of the GATT on imports of cotton textiles from other participating countries agree to relax those restrictions progressively each year with a view to their elimination as soon as possible".

Can one in this light consider an extension of the LTA in 1967 only as a positive result of the Kennedy Round?

Moreover there are indications, especially from the United States and the EEC, that they want a further extension of the Arrangement after 1970.

These indications are:

1. the EEC withdrew its initial offer of 50 per cent reductions for cotton textiles partly because it became clear that an extension of the LTA was possible for a period of three years only (the other reason was that the developing countries preferred satisfactory quantitative arrangements to tariff reductions);
2. the United States and the EEC made their tariff reductions, of about 20 per cent on average, conditional on an extension of the LTA on Cotton Textiles after 1970.

The import quotas of the EEC are raised by about 30 per cent over a period of three years (from 12.000 tons in 1967 to 16.000 tons in 1970). The Community will follow the example given by the U.S. and the United Kingdom and go over the conclusion of "auto-limitation contracts" with exporting developing countries.

44. In the course of the Kennedy Round the Group on anti-dumping designed an "Agreement on Implementation of article VI of the GATT", better known as the anti-dumping code. The Agreement will enter into force on 1 July 1968 for each party which has accepted it by that date.

Representatives of the developing countries in the Group on anti-dumping policies expressed reservations on the Code because no agreement could be reached on the inclusion of special provisions to meet some of their specific problems. The developing countries especially urged a provision with respect to point d) of article two of the anti-dumping code. They argued that a "particular market situation" occurs so many times in their countries that it is normal that a comparison between their prices on the domestic market and their exportprices is not a proper comparison.

The most important question is however: will the Agreement stop industrialized countries from imposing special tariff restrictions on goods from low-wage countries, on the pretence that low-wage goods are automatically dumped? We cannot be sure of that, for the imposition of such tariffs has never been consistent with article VI on "Anti-dumping and Countervailing Duties" of the General Agreement.

Connected with these special tariffs is the question of imposed and "voluntary" quotas for exports from low-wage countries (see page 8-9 of the paper of Mr. Diebold).

## CONCLUSIONS

For a full appreciation of the outcome of the Kennedy Round it is useful to pay attention to the negotiations themselves. From Chapter II, which emphasizes the problems of the negotiations, the idea emerges that part of the results can be traced back to these basic problems. From this Chapter we draw the following conclusions.

It turned out to be impossible to secure, by means of a special rule, body and procedure, the full participation of many developing countries in the Kennedy Round negotiations. Industrialized countries concentrated and had to concentrate on negotiations with other industrialized countries since their most important and immediate interests were at stake within this very group. Trade negotiations ending in a last minute agreement on a package deal between developed countries are not a proper vehicle for giving adequate priority to the trading problems of the developing countries.

A second conclusion bears on the fact that the developed countries did not expect to receive reciprocity from the developing countries. It was understood that "the contribution of the less developed countries to the overall objective of trade liberalization should be considered in the light of the development and trade needs of these countries." The negotiators failed, however, to give this rule more substance in the course of the negotiations.

These two conclusions regarding the negotiations lead to the following corollary. It would have been a big advance if the participants in the Kennedy Round, after the agreement on the package deal, would have found time for concentrating on the problems of the developing countries and for incorporating the eventual results into the package deal. Now that such opportunities have gone to waste there remains the possibility of opening fresh negotiations, this time with the problems of the developing countries in the forefront. In order to turn such talks into negotiations

the issue of "non-reciprocity" should be a matter of discussion. It should be assessed to what extent concessions can be required from the developing countries and more specifically what could be a maximum contribution on their part consistent with their trade and development needs. Presumably this approach would cross the borders of their trade policy proper and would best be placed in a much broader context than just the removal of impediments to trade.

From Chapter III we draw the following conclusions.

The most important concessions during the Kennedy Round have been concentrated in the most modern and technically advanced sectors. Obviously these are not the sectors of outstanding immediate importance to developing countries. The tariffs of most categories of products of interest to developing countries will after the Kennedy Round reductions constitute high tariff peaks in the tariff schedules of the developed countries. The discrepancy in effective rates between sectors of interest to developing countries and other sectors will even be more pronounced after the Kennedy Round than before. The very sectors which are of most importance to developing countries are, generally, at the same time the weakest and most difficult sectors of the industrial countries: agriculture and related processing industries (e.g. sugar), and relatively labour-intensive manufacturing industries (e.g. cotton textiles).

It is thus precisely in the sectors of interest to developing countries that the discrepancies between tariffs on primary products and manufactures are largest; it is unavoidable that the persistence of such discrepancies will accentuate the feelings of discrimination in developing countries. From the fact that the best results have been achieved in the most modern and dynamic sectors, one may conclude that the industrial countries have been aiming at rather immediate trade advantages. For any advance in the direction of free trade in the sectors of importance to developing countries

to be possible a re-orientation to long term free trade advantages seems indispensable. Governments in the industrial countries cannot confine themselves to the sheer removal of trade barriers in these sectors. Simultaneously they will have to face decisions as to how to cushion the repercussions of freer trade. And only after the necessary adjustments have been achieved will the industrial countries be in a position to reap the fruits of the resulting more rational international division of labour.

Both because of the existing discrimination between primary products and manufactures, and because of the undue protection afforded to weak sectors, a rapid implementation of a general system of preferences for the exports of manufactures and semi-manufactures from developing countries deserves high priority. With full preferences for all developing countries without exceptions, all sectors of a developed economy, including the weak sectors, will be exposed to free competition on the part of the developing countries only, and not (yet) on the part of the developed countries. This may ease the transition.

But in any case it will be mandatory timely to take measures for enabling the economy to absorb the shocks and to control the process in such a way as to avoid market disruptions.

# perspectives<sup>6</sup> polonaises

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**LA PARTICIPATION DE LA POLOGNE  
AU «KENNEDY ROUND»**

*Adam Andrzejewski*

**LA SITUATION DU LOGEMENT EN  
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## PARTICIPATION DE LA POLOGNE AU «KENNEDY ROUND»

**Bohdan Łączkowski**

Les négociations commerciales multilatérales, qui se déroulent au sein du G.A.T.T., dites «Kennedy Round» ou «négociations Kennedy», du nom de leur initiateur, constituent non seulement la plus grande tentative de ce genre, par rapport à celles précédemment menées dans le même cadre, mais sont aussi sans précédent dans l'histoire du commerce international en général.

La portée de ces négociations ainsi que les méthodes, élaborées lors des discussions préparatoires, diffèrent profondément de celles qui furent adoptées pour les négociations antérieures.

Certaines différences résultent de facteurs quantitatifs; c'est ainsi que, d'après l'hypothèse préliminaire, d'ailleurs toujours valable, les tarifs douaniers devraient être réduits de 50%, alors que l'objectif des négociations précédentes, poursuivies dans le cadre du G.A.T.T. et connues sous le nom des «négociations Dillon», se proposait d'abaisser les tarifs de 20% seulement. Mais c'est précisément dans les proportions numériques que réside la différence, non seulement quantitative, mais aussi qualitative des conséquences qu'auront les négociations Kennedy pour le commerce international.

De plus, dans le «Kennedy Round», on a admis que les droits de douane sur les produits industriels seraient réduits selon une méthode linéaire et non — comme c'était le cas jusqu'à présent — selon la technique classique des négociations produit par produit. L'efficacité de la nouvelle méthode ne peut être mise en doute. Toutefois, vu la diversité et, dans bien des cas, la contradiction des intérêts qui entrent en ligne de compte, il est évident que bon nombre d'objections ont été soulevées lors de la préparation des bases du «Kennedy Round».

C'est ainsi, par exemple, que l'on n'est pas parvenu à étendre le principe des réductions douanières linéaires aux produits agricoles. Dans ce domaine, les discussions seront menées selon la méthode traditionnelle, produit par produit. Il semble douteux, pour certains d'entre eux — et non pas des moindres — que l'on puisse aboutir à un abaissement radical des barrières de protection. Il faut cependant rappeler que c'est la première fois que l'on va tenter

de trouver des solutions multilatérales aux difficultés auxquelles se heurte le commerce des produits agricoles.

Une autre cause de soucis en ce qui concerne l'effet final de cet exercice consiste dans le fait que les pays participant aux négociations sur la base linéaire ont présenté une liste relativement longue de produits qu'ils veulent soustraire au principe d'une baisse de 50%. L'existence de ces listes d'exceptions réduira évidemment la portée de l'opération. Dès aujourd'hui, certains estiment qu'en fin de compte le «Kennedy Round» permettra d'aboutir à une baisse générale de la protection douanière de l'ordre de 30 à 35% au lieu des 50% prévus à l'origine. Il n'en demeure pas moins que ce serait là le meilleur résultat encore jamais obtenu<sup>1)</sup>.

Les résultats de l'ensemble des négociations dépendront aussi dans une grande mesure de ce qui sera réalisé dans le domaine des obstacles non tarifaires.

De nombreuses divergences d'intérêts et d'opinions se font jour. Certaines d'entre elles découlent de la variété des méthodes de protection douanière pratiquées par les pays participant aux négociations. En effet, autour d'une même table, se sont réunies des délégations représentant des pays où la protection douanière est faible et des pays où elle est élevée. Parmi ces derniers certains ont des tarifs douaniers dont le niveau est relativement uniforme et d'autres où les droits de douane sont bas pour certains produits et très élevés pour d'autres. Ceci nous amène au problème suivant: une réduction de moitié d'un tarif douanier peu élevé équivaut-elle à une réduction de moitié d'un tarif élevé? etc.

Dès le début les négociations poursuivies dans le cadre du «Kennedy Round» n'ont jamais été faciles. Il a parfois semblé que les obstacles seraient insurmontables et que certains finiraient même par faire échouer toute l'entreprise. Avec le temps, il s'est cependant avéré que les difficultés avaient pu être surmontées ou contournées, si bien qu'on peut appliquer au «Kennedy Round» la fameuse constatation de Galilée: *eppur si muove!*

L'un des reproches que l'on pouvait encore récemment adresser aux négociations Kennedy, bien que les participants représentent, il est vrai, une très grande partie du commerce mondial, c'était de n'offrir que peu d'éléments susceptibles d'attirer les pays en voie de développement et de constituer de la sorte un genre d'entreprise de riches. Les changements que la deuxième session spéciale a apportés à l'accord général, à savoir l'acceptation de ses chapitres XXXVI, XXXVII et XXXVIII, ont considérablement modifié l'attitude des

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<sup>1)</sup> Les «négociations Dillon» qui, en principe, devaient permettre une diminution de 20% des tarifs douaniers sur les produits industriels, mais qui ont été menées d'après la méthode, «produit par produit», aboutirent en définitive à une réduction générale de la protection douanière de l'ordre de 6%.

pays en voie de développement non seulement à l'égard du G.A.T.T. en tant qu'organisation mais aussi à l'égard du «Kennedy Round».

L'intérêt que la Pologne porte aux négociations Kennedy découle de son caractère de pays à la fois de commerce et de transit, dû à sa position géographique aussi bien qu'à sa structure économique.

La Pologne développe activement son commerce avec les pays membres du G.A.T.T. En cinq ans — depuis novembre 1959, date à laquelle la Pologne a fait les premiers pas vers une association avec le G.A.T.T., jusqu'en 1963 — les échanges de la Pologne avec les parties contractantes sont passés de 1.083 millions de dollars à 1.675 millions de dollars, soit une augmentation de 55%. Ce fait justifie à lui seul l'intérêt manifesté par la Pologne à la plus grande des entreprises que le G.A.T.T. ait jamais tentée afin de supprimer les obstacles auxquels le développement du commerce se heurte.

Il existe cependant d'autres causes profondes résidant dans la structure actuelle de l'économie polonaise et dans les changements de son commerce extérieur qui expliquent elles aussi notre intérêt pour les négociations Kennedy.

La Pologne entre dans une période de véritable explosion démographique. Le nombre des jeunes gens nés après la guerre et qui atteignent à présent l'âge de travailler ne cesse d'augmenter. Le rôle du commerce extérieur, dont la valeur représente près de 20% du revenu national de la Pologne, devient d'autant plus grand dans ces circonstances.

En outre, la structure du commerce extérieur de la Pologne qui, il y a dix ans, n'exportait qu'une quantité relativement limitée de produits de masse a profondément changé. Pour s'en rendre compte, il suffit d'analyser les données pour la période 1959-1963.

En 1959, au moment où la Pologne se rapprochait du G.A.T.T., les biens d'équipement et les articles de consommation d'origine industrielle constituaient 32,8% de la totalité de ses exportations alors qu'en 1963 leur part atteignait déjà 46,0%. Ainsi s'explique l'intérêt suscité par les possibilités que le «Kennedy Round» offre dans le domaine de la réduction des tarifs douaniers et de la suppression des autres obstacles qui se dressent sur la voie de développement du commerce.

Un exemple à titre d'illustration: en 1964 les biens d'équipement ainsi que les produits industriels de consommation courante représentaient 23% de la valeur totale des exportations polonaises à destination des Etats-Unis, pays qui n'impose de restrictions quantitatives aux importations en provenance de Pologne que dans des cas limités (articles textiles) et qui, dans le domaine tarifaire, nous accorde le traitement de la nation la plus favorisée. Par contre, pour la même année, les produits manufacturés ne constituaient que 9% des exportations polonaises vers le Marché Commun dont les pays membres

limitent les importations en provenance de Pologne par le biais de restrictions quantitatives appliquées d'une façon rigoureuse.

A l'origine de l'intérêt que la Pologne porte au «Kennedy Round» on trouve donc d'un côté les possibilités qu'offrent en elles-mêmes ces grandes négociations commerciales et, de l'autre, le désir de trouver une base pour une plus large participation aux travaux du G.A.T.T.; étant donné que le statut actuel de membre associé ne donne à la Pologne que des avantages modestes et qu'il serait difficile de le maintenir à la longue.

Il faut ajouter que la Pologne, en tant que pays importateur (la valeur de ses importations en provenance des pays membres du G.A.T.T. a atteint en 1964 pour la première fois près d'un milliard de dollars, exactement 958,4 millions de dollars), offre un marché intéressant pour les pays exportateurs et que les concessions qu'elle propose de donner contrebalanceront en fait les demandes qu'elle présente.

La contribution de la Pologne au «Kennedy Round» ne se limite pas seulement à proposer une ouverture plus large de son marché, mais elle se traduit aussi par la méthode qui sera mise en vigueur pour permettre l'évaluation de l'accroissement nécessaire de ces importations. La Pologne est un pays où l'économie est planifiée à l'échelon central et où l'Etat exerce le monopole du commerce extérieur. Les importations polonaises ne sont pas assujetties à quelque grèvement douanier que ce soit.

Le problème se pose donc de savoir comment procéder afin de trouver l'équilibre des avantages réciproques entre un pays tel que la Pologne et les parties à l'Accord général (dont la plupart sont des pays à économie de marché), dans le cadre de négociations, dont la réduction des tarifs douaniers de 50% constituent le point de départ.

Ce problème n'est guère simple. La délégation polonaise, qui a participé à la Conférence ministérielle du G.A.T.T. tenue au mois de mai 1963 et aux travaux préparatoires du «Kennedy Round», s'en est rendu compte. C'est la raison pour laquelle elle a proposé d'inclore, dans les attributions du sous-comité des obstacles non tarifaires du Comité des négociations commerciales (créé par la Conférence ministérielle sous la présidence du Directeur Général du G.A.T.T., M. Eric Wyndham White), la tâche d'étudier les questions spéciales.

La délégation polonaise a estimé que le cas de la Pologne représentait justement une de ces questions spéciales pour lesquelles il fallait trouver un cadre institutionnel.

Cette suggestion a été acceptée et depuis lors c'est dans le cadre du sous-comité des obstacles non tarifaires et des questions spéciales qu'est recherchée une solution au problème de la participation de la Pologne au «Kennedy Round».

En même temps, ont été mis à profit également les travaux du groupe chargé de procéder aux examens annuels des relations entre

la Pologne et les parties contractantes, en vertu des arrangements de novembre 1959, concernant l'association de la Pologne au G.A.T.T. Le deuxième examen de ce genre a eu lieu au mois de juin 1963. Au cours de ces débats les réponses fournies par le délégué polonais aux questions posées par les autres membres du groupe (en premier lieu par le délégué de France) ont donné un premier aperçu de ce que pourrait être la participation de la Pologne aux négociations Kennedy.

Ces questions et ces réponses portaient sur le discours prononcé à la conférence ministérielle du G.A.T.T. en mai 1963 par le délégué polonais, M. F. Modrzewski, vice-ministre du Commerce extérieur. Elles ont été consignées en octobre 1963 par le Secrétariat du G.A.T.T., dans un document sur la participation de la Pologne au «Kennedy Round». Toutefois des complications de nature formelle ont surgi. N'étant que membre associé du G.A.T.T., la Pologne n'avait pas le droit formel de participer aux travaux du Comité des Négociations Commerciales. Il était prévu qu'elle pourrait y prendre part uniquement en qualité d'observateur. Cette situation était inacceptable pour la délégation polonaise car cette procédure l'aurait placée dans une position désavantageuse par rapport aux autres pays participant aux négociations. Elle estimait que ses propositions devaient être discutées comme partie intégrante des négociations elles-mêmes et non pas être considérées comme une condition préalable à l'admission de la Pologne au Comité des négociations commerciales. Ce problème n'a pu être résolu avant la première réunion de ce Comité et c'est ainsi que la délégation polonaise n'y a pas participé.

Cette question se trouva inscrite à l'ordre du jour de la deuxième réunion du Comité des négociations commerciales à laquelle la délégation polonaise participa déjà en tant que membre de plein droit.

En novembre 1963 le sous-comité des obstacles non tarifaires et des questions spéciales a créé un groupe de travail et lui a confié le mandat de procéder à l'examen du problème de la participation de la Pologne au «Kennedy Round». En février et en mars 1963, une série d'entretiens officiels se sont déroulés au Secrétariat du G.A.T.T. entre le représentant de la Pologne et les représentants des pays intéressés à la participation de la Pologne aux négociations.

A la suite de ces entretiens, la délégation polonaise a présenté à la réunion du Comité des négociations commerciales, tenue le 27 avril 1964, ses demandes et ses propositions concernant sa participation aux négociations. Ces demandes sont les suivantes: pleine application du traitement de la clause de la nation la plus favorisée vis-à-vis des importations en provenance de Pologne en ce qui concerne les droits de douane; suppression des restrictions quantitatives; droits contractuels en matière de réduction des droits de douane dans les cas où la Pologne y a intérêt en qualité de fournisseur; maintien au niveau actuel des exportations traditionnelles de produits agricoles polonais; dans le domaine des obstacles non tarifaires, traitement

compatible avec les règles appliquées à l'égard des pays membres du G.A.T.T., c'est-à-dire la non-discrimination.

Les offres de la Pologne constituaient en quelque sorte une tentative de traduire les avantages proposés en langage du plan, à savoir la garantie aux pays membres du G.A.T.T. d'un accès au marché polonais dans des proportions raisonnables; à cet effet, l'attribution des recettes additionnelles dues à la réduction des tarifs douaniers dont bénéficierait la Pologne à l'accroissement de ses importations en provenance de ces pays; la prise en considération des possibilités d'un accroissement plus rapide des importations de certaines marchandises et, enfin, l'acceptation de procéder dans le cadre du G.A.T.T. à un examen de la situation qui découlerait des concessions mutuelles consenties par la Pologne et par les pays membres du G.A.T.T.

La Conférence ministérielle du G.A.T.T., qui s'est déroulée en mai 1964 et qui a inauguré le «Kennedy Round» d'une façon formelle, a officialisé la demande de participation de la Pologne aux négociations commerciales, par l'adoption d'une résolution appropriée, qui exprime l'espoir qu'une solution pratique du problème pourra être trouvée.

La forme de la participation de la Pologne au «Kennedy Round» a été discutée au cours de l'été 1964 par le groupe de travail. M. Finn Gundelach, directeur général adjoint du G.A.T.T., s'est rendu à Varsovie en septembre 1964 où il a eu divers entretiens avec les membres du gouvernement polonais afin d'éclaircir certains points concernant cette participation. Plus tard, de nouveaux entretiens officiels ont eu lieu au Secrétariat du G.A.T.T. A la suite de ces entretiens, le Comité des négociations commerciales du G.A.T.T. a décidé, en mars 1965, que la Pologne participerait pleinement à toutes les phases des négociations du «Kennedy Round». Cette participation est fondée sur le document présenté par la Pologne le 1<sup>er</sup> avril et qui contient ses propositions adaptées à la phase actuelle des négociations.

C'est ainsi qu'a pris fin la phase initiale des entretiens et que la phase des négociations proprement dites a été amorcée. Cela ne signifie nullement que toutes les difficultés soient surmontées. Bien au contraire, à mesure qu'on approche du moment où les décisions définitives devront être prises, certains problèmes qui, jusqu'à présent, semblaient secondaires prendront de l'importance.

Mais ces difficultés seront d'une tout autre nature. Il ne s'agira plus en effet de savoir si la Pologne peut participer aux négociations mais comment cette participation doit être définie et comment sera assuré l'équilibre des avantages et des concessions.

Results of the Kennedy Round:  
a Czechoslovakian point of view

Z.Augenthaler

When considering the Agenda of the International Colloquium on Atlantic relations, it may prove useful to choose some principle, a criterion to determine the results of international trade policy since the Second World War.

Such a generally accepted criterion is given by the aims of the United Nations Charter. There the signatories have pledged themselves to take joint and separate action to promote a higher standard of living, full employment and conditions of economic and social progress and development, which in the words of the Charter, are necessary for peaceful and friendly relations between nations. Thus international trade also should be conducted and directed in a way to tend to the attainment of the above principles. That it should be so, is evident from the preamble to the General Agreement on Tariffs and Trade.

When GATT was negotiated, the circumstances of course were very different and since 1947 the structure of GATT in many ways changed, the number of members greatly increased, the agreement itself was several times amended and the field of activities was largely extended. Still we may ask ourselves if the successive amendments have taken sufficiently into account all realities.

GATT's principal aim, as it appears during the last years, remained tariff disarmament and the removal of trade barriers. The results achieved during the last 20 years in this direction are undoubtedly considerable. The present stability and lowering of customs duties are in striking contrast to general anarchy and tariff wars characteristic of the period following the first World War. In other fields, as for instance the trade of commodities, GATT was hardly successful. It is undoubtedly a problem, which cannot be settled by tariff policy only. It would be interesting to find out, to what extent the post war tariff stability has contributed to the development of trade relations and on the other hand, to what extent general economic development has made this stability possible.

Mr. Wyndham White, the eminent Director General of the GATT in his statement made on 15 May 1967 at the closure of the Kennedy Round negotiations / GATT Press Release 990, 17 May 1967/ declared the following:

"The General Agreement of 1967 extends and consolidates the impressive achievements of twenty years of international trade cooperation. It points the way ahead to further achievement. At the same time the structure is fragile and constantly subject to attack. So far it has not been tested by periods of economic stress and recession. We cannot confidently say whether it would take the strain. If national economic policies are managed without sufficient awareness of the economic interdependence of nations, there is always the risk that governments may feel impelled to revert to policies of external restrictions. The happily brief episode of the United Kingdom surcharges is warning of what could happen. In recent days too, we have seen carefully negotiated agreements of vital interest to the parties concerned frustrated by powerful sectoral pressures".

This is a very wise warning and has to be taken seriously, because a reversal of commercial policies of one country, especially if it is an important country in world trade, to restrictions may easily become a chain reaction with disastrous results.

But let us consider the trend of development of international trade during the time of existence of GATT. An important fact is, that since 1953 the share of developing countries of world trade fell in 1966 to 19 per cent as compared with 27 per cent in 1953 and 22 per cent in 1960. It is an uninterrupted trend and export earnings of developing countries continue to lose ground on world market in such a way, that their debt service obligations are alarming.

At the same time the share of primary commodities in world trade, which until ten years ago exceeded one half, fell below 40 per cent in 1966. The developing countries, considered to be predominantly exporters of primary commodities, are losing ground even in this field. In 1961 industrial areas had 24,48 % of world trade in these goods but in 1966 already 31,52 %. Again we see a continuous trend, that is even more serious, because chemicals, synthetic fibres, plastics and similar products are generally included into manufactures, where industrial countries have over 90% of trade. As to the foodstuffs too we may observe a displacement of exports from developing to the industrial countries. The final result of these facts is, that the deve-

loping countries, with the exception of some petrol exporters, have permanent difficulties with their balance of payment and are greatly hampered in their general development, in spite of the fact, that great parts of their exports are customs free. This brings us to the conclusion, that their problems are not solved by customs reductions only and that other measures are necessary, measures until now generally considered not a part of classical international commercial policy. It is important not to lose sight on this side of international trade relations, as it is one of the most momentous problems of the contemporary world.

The Kennedy Round negotiations, and it would be wrong not to recognize that they were a great step forward, practically centred on trade in manufactures among few industrial countries and primarily benefitted them especially the European Economic Community, USA, United Kingdom and Japan. The joint statement made in Geneva on 30 June 1967 by the developing countries said that for the developing countries the most important problems of most of them in the field of trade taken up within the framework of these negotiations still remained unsolved. It was especially advance implementation of concessions in favour of developing countries, reduction or elimination of duties on products of particular export interest, tropical products, commodity agreements, compensation for loss of preferences and removal of non-tariff barriers. It is also a well known fact, that to the developing countries trying to introduce their manufactures on the world market, very important items are textiles and clothing and similar goods. However in this sector the cuts are less deep than those in most other sectors.

That is why the developing countries see in UNCTAD and in the future conference in New Delhi an institution called upon to solve in a more complex way their problems.

In the interest of world trade relations, GATT should complete the unfinished tasks, which remained unsettled in many fields. The method of linear reductions proved to correspond to the situation, but there are probably little prospects that it could be repeated in some near future.

There are also besides the developing countries some smaller countries that are looking on the results of the Kennedy Round

Negotiations with mingled feelings. On the one hand they recognize the advantages it brought to world trade, but on the other they cannot escape the impression that their interests were not adequately taken into account. Czechoslovakia has even more reason for some unsatisfaction. On one side several of its typical export articles, like plate glass, tractors, some machine tools etc. gained little advantages, on the other side practically no reductions were accorded by the main importing countries to its specialized agricultural exports. These exports represent for instance 20 % of Czechoslovakia's export to the European Economic Community.

But above all, the concessions made by the United States have no value to Czechoslovakia. It is a well known fact, that in 1951 as consequence of a decision of the Congress, the United States terminated its commercial agreements based on the most favoured nation clause with the socialist countries and GATT on 27 september 1951 unfortunately, and in the opinion of the Czechoslovak Government contrary to the basic provisions of the GATT, suspended all obligations between Czechoslovakia and the United States. Hence all reductions made by the USA now are not applied to Czechoslovakia and on the contrary the margin between general and conventional duties increased.

That is why Czechoslovakia is unable to feel the same satisfaction as other countries. Moreover some countries are applying to Czechoslovakia discriminatory import restrictions. These matters were not dealt with at the round of negotiations.

It is true, that methods and procedures of external trade of the socialist countries differ in some ways and especially as, to their aims, from that of countries having private enterprise economies. In practice however they form no great obstacle to the development of the multilateral trade without discriminations. This is the more so since most socialist countries are now introducing new methods in their economy in general and as consequence also in their foreign trade relations.

All these changes are not until now fully in force, there are certain experiments in the way and not all socialist countries follow the same course. Their foreign trade organizations and procedures differ. It depends on many considerations, such as the structure and extent of their foreign trade, degree of

development, traditions etc. That is why it would be hardly practicable at this moment to have one single set of rules applied without distinction to all of them and it seems rather necessary to adopt a case by case approach.

Czechoslovakia welcomes reductions of tariffs and other trade barriers which may lead to a peaceful coexistence of all nations without distinction of their socio-economic system. It considers that in order to solve the problems of developing countries, there should be a cooperation of all, because the problem is of such a magnitude and urgency that it requests a joint effort.

Contrary to former times, when international commercial policy was essentially the concern of only a restricted number of countries with more or less similar political and social structure and conceptions, there is today a great diversity of systems, situations and possibilities, which make it very hard, if not impossible, to draw such strict rules that would fit to all situations.

For this reason a sensible division of competence between GATT and UNCTAD would be highly desirable as well as a close cooperation between them in order that their actions should not contradict each other and hinder attainment of the aims set in the United Nations Charter. In this directions both institutions should find general support. All countries have a great responsibility for the future of the world, moral as well as material, and the more a country is rich and mighty, the more carefully it should weight its actions and ponder to what consequences they may lead.

Praha, November 1967

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The Kennedy Round and the German Economy

W.Hipp

## The Kennedy Round and the German Economy

Any assessment of the Kennedy Round of Trade Negotiations by the business community of the Federal Republic of Germany should be based on facts and (official) figures available at this time.

The organisation which I have the honour to represent here - the Deutsche Industrie - und Handelstag (Association of German Chambers of Commerce) - has a long historical tradition of endeavouring to weigh what is good for industry against what is good for commerce. In this case too we must look at both sides of the coin - imports and exports.

On the import side official figures just released show that our weighted tariff average will - after all cuts agreed to in Geneva come into full effect - be reduced from at present 11,3 per cent to 8,4 per cent. The actual reduction is even greater if we take into consideration that full application of the Common External Tariff of the European Community on July 1st, 1968, would for the Federal Republic of Germany have meant an average rate of duty of 12,7 per cent. This is explained by the fact that the difference between our national tariff and the EEC-tariff at present has only been reduced by 60 per cent.

Our Federal Budget will have to allow for a decrease of revenue of roughly 500 mio DM in duties collected on imports from third countries when the full effect of all tariff cuts is being felt after January 1st, 1972.

This means a reduction of 34 per cent. We will then reach our tariff level of 1958 - before the Common Market - the lowest since the war.

On the export side a few remarks on tariff concessions in those countries which are our best customers:

Scandinavia will lower by 50 per cent the rates on our main export items.

The United States are going to reduce their duties by 50 per cent on 90 per cent of their imports from Germany.

Switzerland agreed to reductions averaging 35 per cent; on a number of items of interest to us the reduction will be 50 per cent.

The United Kingdom levies on our exports will be lower by 38 per cent (excluding the chemical sector).

The German Business Community has stated with some relief, that the discriminatory effect of the Common Market in so far as it means an increase of tariffs on imports from our traditional suppliers will disappear in a couple of years.

The customs barrier we have been setting up around our Customs Union - and the one constructed by the EFTA-Countries - cannot of course be completely dismantled, but it will be levelled off quite considerably. As a consequence the changes in European trading currents, which by now have become clearly perceptible, may be contained, negotiations for entry in the EEC with EFTA-Countries are somewhat easier - at least from an economical point of view.

We are at the same time looking forward to a sizeable increase of imports which we feel is an essential element in our balance of payments.

Unfortunately in the agricultural sector results are far from impressive. With some regret we note that the goals set by the United States and other important suppliers of agricultural products could not be reached. EEC was still in the process of developing its common agricultural policy, which had to be protected as one of the pillars of our Common Market. Here the level of protection did not prove negotiable - mainly on political grounds.

German exporters have every reason to be satisfied with the results of the Kennedy Round in other countries, both as regards the more regional aspect and considering the scope of products, where tariff cuts are now imminent.

A country in which export shipments traditionally constitute an important part of the Gross National Product must welcome tariff reductions abroad. Even if they are just marginal, they might give just the impetus needed to start a new sales campaign or

to open up a completely new market for a specific product.

We feel that our whole economy will receive fresh and powerful impulses from the general across-the-board-reduction of duties abroad and at home.

With this in mind reaction throughout our country on results of the Kennedy Round was very favourable. For those sectors of industry where a certain degree of protection is still needed our negotiators found adequate arrangements.

The outcome of the Kennedy Round has, of course, other aspects which we should consider:

In Geneva the EEC was being tested for the first time as a bargaining entity. During the course of these long and strenuous negotiations - which were made necessary by the very creation of the Community - the EEC has given ample proof of its importance and of its responsibility in world trade.

During the last decisive months she influenced the agenda of these negotiations and persuaded the United States to agree on compromises in certain sectors. This was the result of a remarkable firmness in sticking to principles combined with the right measure of flexibility in really critical issues.

We regard this as an achievement of the European Commission, which succeeded in finding a common denominator for the rather divergent interests of member countries and at the same time secured a remarkable degree of cooperation from all of them.

We in Germany appreciate very much that France and Italy with their relatively high basic level of tariffs had to make considerable sacrifices. The Commission was able to negotiate freely because for the first time the Council of Ministers delegated sufficient authority.

Looking beyond Europe we feel that the results of these negotiations show that the General Agreement on Tariffs and Trade as an institution passed this crucial test with high honours. It reaffirmed its importance as a guardian of freedom and multilateralism of world trade, vis-à-vis its member states and the world business community.

Businessmen in Germany have supported their government delegation in Geneva at all times, and they welcome this remarkable increase of stature of GATT as compared with the United Nations Conference on Trade and Development and the regional economic commissions of the UN.

In the future GATT should from our point of view concentrate on the further reduction of non-tariff-barriers. Some results have already been achieved in Geneva as part of the Kennedy Round Package:

In European Countries the discriminatory effect of automobile road taxes will be abolished

The US-Administration undertook to seek congressional authority for the abolition of the American Selling Price system of valuation for chemicals.

The participating countries agreed on an Anti-Dumping-Code under Article VI of GATT.

This new code has to be translated into national rules, in some countries new legislation is not needed. In Germany there will not even be a necessity for a marked change in our anti-dumping procedures. But certainly the new European Anti-Dumping-Legislation being shaped will use the GATT Code as a guideline.

Countries subscribing to the Code must adopt procedures and administrative practices which will ensure that, when anti-dumping complaints are accepted and examined, trade is not unjustifiably disrupted or inhibited.

Applications for anti-dumping action must be supported by evidence of material injury to domestic producers as well as of dumping, and investigations should not be initiated without consideration of the evidence on both these counts.

The Code also provides guidance on the assessment of the effects of the dumped imports to ensure that anti-dumping action is only taken against dumped imports which are demonstrably the principal cause of material injury, or the threat of it.

Acceptance of the Code will require the Canadian Government to apply the material injury criterion before imposing anti-dumping duties.

The Code limits to three months the period during which provisional action can normally be applied in contrast to the indefinite period during which such action is taken under present United States' practice.

The Kennedy Round was one of those negotiations where after a long and hard battle there were no losers. This does not just mean the national delegations which, of course, have to impress at home what a remarkable success they had - to secure approval by their Governments and Parliaments.

These negotiations must - from our point of view - be regarded as a great success by free enterprise everywhere: For the first time in the history of Trade Negotiations the principle of across-the-board-cuts has been tried and proved feasible. Quite a progress after the product by product haggling of the past. The great industrial nations lived up to their responsibility of ensuring the freedom and promoting the expansion of world trade.

However, we feel that caution is necessary. This was only one victory for liberal forces over protectionism entrenched in many sectors of industry in all countries.

This Fall the US-Administration is fighting in the Senate a number of protectionist bills that would place import quotas on steel, textiles, chemicals, oil, meat, and other commodities.

Common Market Countries in a way have been helping the US administration state its case by drawing up a list of possible retaliatory measures which, of course, together with the unfortunate proposals put forward by the US-Congress would jeopardize the results of the Kennedy Round.

This makes obvious that in reality not more than a delicate balance has been achieved between protectionism and free trade. This proves how right the Director-General of GATT, Mr. Eric Wyndham White, was, when he said "The price of economic liberalization - as of liberty - is eternal vigilance".

Bonn, 25-10-1967

FUTURE NEGOTIATING ISSUES  
AND  
POLICIES IN FOREIGN TRADE

by

William Diebold, Jr.

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The Trade Expansion Act made major innovations in United States foreign trade policy. The Kennedy Round introduced some unprecedented features into international negotiations. Neither worked quite as it was expected to but both achieved important successes. Neither can be adopted unchanged as a model for dealing with the next set of problems we face.

Analyzing what has just been done can help us to decide what new steps ought to be taken. For that we need to call on the experience of those who went through the negotiations and also statistical work comparing tariff cuts (or the lack of them) to patterns of world trade. Lacking both these sources, this paper is an outsider's attempt to say something about the decisions that will confront the United States in the next 5 to 10 years based on a look at the unfinished business of the Kennedy Round.

Though I have not had a chance to read the fine print, I think that what was done and not done in the Kennedy Round can be fairly safely summarized in a few propositions.

On a wide range of manufactured goods, tariffs have been cut to lower levels than at any time since the early '30s, but significant tariff protection remains on a number of important products.

Non-tariff barriers, not new in international trade negotiations, have had their importance highlighted by the Kennedy Round, both for the future and as a means of making final some of its conditional arrangements.

In agriculture, the Kennedy Round made a number of useful tariff cuts and made some progress in linking transatlantic grain trade with world food problems. No dent was made in the barriers put up by the European Economic Community's Common Agricultural Policy, but the discussions may have given an impetus to a new kind of international negotiation about agriculture.

While a number of the things done in the Kennedy Round will be of benefit to the less developed countries, they were relatively silent partners; their main trade problems have yet to be dealt with.

East-West trade, too, will be affected only in a modest degree by the Kennedy Round.

If this summary is reasonably accurate, it gives us the outlines and some of the dimensions of the issues we need to consider in looking at future United States trade policy.

In what follows I have assumed that the United States will continue to press for the removal of barriers to international trade, whether they are imposed

by itself or by others. The case for such a policy is, in my opinion, clear -- but I do not argue it here. If the assumption were to be regarded as false, readers could dispense with the pages that follow except to the extent that they might be thought helpful as a partial lists of the kinds of barriers to American exports that might well increase in the absence of an effective effort to lower them and as some indication of the forms in which American consumers might have to make the payments exacted from them by restrictions on imports.

This paper emphasizes broad issues and general directions. It says little about timing, tactics or the specifics of legislation. It leaves out a number of questions of trade policy, including the important matter of adjustment assistance, one of the most notable instances of the TEA's not working out as expected. Even with these limits the paper covers so wide a range of issues that it is full of unqualified and perhaps even dogmatic statements. Part of the excuse for that is that the aim of the paper is to raise questions, not answer them. It does not prescribe what United States trade policy should be in the years ahead, but tries to state some of the issues about which decisions will have to be made in shaping that policy.

#### The Remaining Tariffs

Much of the impact of the Kennedy Round will be on that large segment of world trade made up of the exchange of manufactured goods among industrialized countries. From now on we can think of the remaining tariffs on this trade as falling into three categories:

1. Those that were reduced by the full 50 per cent or something approaching it, or that are quite low even if the cuts were smaller;
2. Those that were reduced by little or nothing because deeper cuts were regarded as economically or politically unacceptable to major trading countries;
3. Those that a country would have been willing to reduce but withdrew from the bargaining because other countries were not willing to make adequate concessions.

There are no hard and fast lines between these categories, but it is clear that they present rather different kinds of problems for the future. There is little to say about the third except that it provides an area of maneuver in future tariff bargaining. The second includes the hard cases -- whether for a number of countries or just one or two key ones -- which will probably require special efforts and very likely more than tariff bargaining if they are to be dealt with at all. More will be said about these later.

As to the first category, two questions suggest themselves: How restrictive are these duties? If they could be cut as much as they have already been cut, should one expect to be able to reduce them still more in the not too distant future, say when the Kennedy Round reductions are fully in effect?

Merely because a duty is below 10 per cent it cannot be called unimportant or unprotective. A 9 per cent aluminum duty that the European Community refused to touch was one of the sore points of the Kennedy Round. Businessmen and consumers are not indifferent as to whether a tax is 3 per cent or 8 per cent. Valuable recent work distinguishing "effective" from "nominal" tariff rates has emphasized an old but often forgotten point that if raw materials and others inputs are tariff-free, the protection offered the manufacturing process may be much higher than the apparent duty rate on the finished product. Nevertheless, when a large number of duties get down to what by the standards of the last 50 years are fairly low levels, many of them begin to look rather dispensable. Certainly the idea that they spell the life or death of great industries looks less plausible than ever. It is no accident, after all, that in the TEA Congress gave the President the power to remove duties of less than five per cent. It would seem modest enough, then, to suggest that one aim of future trade policy would be for the United States and other industrialized countries to eliminate "nuisance tariffs". The question would be only where the line should be drawn -- at 5 per cent or above.

To pursue this aim the power the President now has could be extended. But broader approaches ought to be considered. After all, the lesson of the trade policy the United States has followed since 1934 is that tariffs can be very substantially reduced without great damage to domestic interests and with probable benefit to the national economy. This conclusion is certainly supported by the European experience in the Common Market and EFTA. The Kennedy Round has shown the willingness of a number of governments to take another big dose of the same tonic. Would it not be realistic to think of one more step that would eliminate (or at least drastically reduce) most of the tariffs remaining on trade in manufactured goods among industrialized countries? Of course there would be exceptions, including probably the hard cases of category 2 above, which have to be approached in a different manner. But much more would be included than the "nuisance tariffs", those of 5 per cent or less. Many of the duties that will be 10 or 12 per cent after the Kennedy Round cuts are fully in effect were several times as high 15 or 30 years ago. Sometimes the last quarter of a tariff may seem more valuable to those it protects than the first three-quarters, but it is hard to dismiss the impression that if such cuts could be made in 20 or 30 years, the remnants could be disposed of in another 10. The argument would not be that the remaining duties were meaningless or negligible but that in the light of what has already been done,

and on the basis of giving and gaining that is the core of tariff policy, a general agreement to eliminate over a period of time a large number of tariffs on trade in manufactured goods among the industrialized countries would be a desirable and not unimaginable goal.

Another Kennedy Round with linear cuts would be one way of going at this possibility (though I doubt that there would be much enthusiasm for that idea now). Perhaps a more clear-cut approach would be to think of a formula under which countries would move more or less automatically toward the agreed-on goal. While a number of formulas could be devised -- and the possibilities multiplied by combining them in various ways -- the alternatives that follow give a reasonable idea of the main lines of approach.

1. Duties could be reduced according to a uniform schedule that would bring all of them to zero in a short time.
2. Some duties might be reduced faster than others, perhaps because they were higher to start with, or more slowly because some countries needed longer to adjust to free trade than others, but all would be completely removed by a scheduled time (presumable but not necessarily the same time).
3. A country's obligation might be to reduce the average of tariffs (or the average in each of several categories of tariffs) by a certain amount each year. This formula would permit each country some flexibility -- going slow on some duties if it went faster on others -- while assuring the same results in the end.
4. If the elimination of tariffs were unacceptable the same formulas could be used to proceed to a more modest goal.

One possible goal which might be pursued with or without a formula is tariff "harmonization." This loose term means to some people that different countries should apply the same tariff rate to the same products (or depart from the pattern only for special reasons). The European Community's proposals for dealing with ecretement and tariff discrepancies in the Kennedy Round were in a sense versions of this form of harmonization. Another way of using the word is to describe a goal in which most tariffs on trade in manufactured goods among industrial nations -- with the inevitable exceptions -- would fall into an agreed-on range -- say 8 to 10 per cent. As in the third of the formulas outlined above, flexibility could be introduced by applying the rule to averages. The economic advantages of harmonizing tariffs are less obvious than of reducing them, but there is a kind of elementary equity about the idea which might make tariff reduction more acceptable than some other kind of arrangement.

Formulas have the advantage of seeming to simplify matters, but that will not be enough to persuade governments to submit their hardest cases to them. The future will, therefore, include some of the same kind of tariff bargaining as the past. Perhaps, though, the chances of success can be increased by some new approaches. Eric Wyndham White, Director-General of GATT, has suggested that in some major industries "characterized by modern equipment, high technology and large-scale production, and by the international character of their operations and markets" negotiations might lead to free trade "within a defined period."\* To some degree industry by industry negotiations were begun in the Kennedy Round, partly it would seem to deal with some of the "hard cases." The idea of advancing from exceptions lists to possible free trade is an attractive one. Chemicals and steel are industries in which a number of leading countries have both protected and exporting sectors; in aluminum there are only a few big producers and a very international market. One advantage of this approach is that other trade barriers could be looked at along with tariffs. Another is that the relative importance or unimportance of trade barriers would be made much clearer than is usual when a negotiation is only about trade barriers and everything else that affects the industry is regarded as falling outside the discussion. The results, Wyndham White believes, could be a series of agreements moving toward free trade industry by industry.

The approach prompts questions about the government-business relationships needed for this kind of negotiation. Another set of doubts may focus on the tacit or explicit understandings that might be encouraged between private businessmen in several countries. It is also important, -- as Representative Thomas Curtis pointed out in his testimony to this Subcommittee on July 12, 1967, -- to avoid accepting past shares in the market as a fixed pattern for future trade. Nevertheless, the idea has enough merit in it to deserve serious exploration and perhaps some experimentation.

Industry by industry negotiation may not lead to separate industry agreements. While in some complex industries it may be possible to balance the advantages and concessions of a number of countries, in others the discrepancy will be too great or one of the parties will want to bargain its acceptance of an industry arrangement for another country's acceptance of a different industry agreement. The experience is common enough in normal tariff negotiations; it is said to have taken a Common Market concession on paper to get the Scandinavians to reduce automobile duties in the Kennedy Round. This is not a fatal weakness of the industry-by-industry approach but a warning that its adoption may not go quite as far as its name

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\*Speech to the Deutsche Gesellschaft für Auswärtige Politik, October 27, 1966.

suggests to divide trade negotiations into a series of discrete transactions. By the same token an agreement on nuisance tariffs and another on reduction by formula might well be linked with one another, and industry agreements to them.

In analyzing trade problems of the post-Kennedy Round period we tend to distinguish among them and naturally look for solutions suited to the problems, not universal solvents. This suggests a certain breaking up of the pattern of negotiations and the analysis of non-tariff barriers points strongly in the same direction, as we shall see. Perhaps we should get in the habit of thinking about trade negotiations as a continuing process proceeding at different paces on different matters, rather than as a process with periodic climacterics such as the main rounds of tariff negotiations under GATT have been. But it may be a mistake to think that things can be broken apart in this way, given the discrepancy between the aims of one country and another and the natural tendency of bargainers to use all the counters at their command. It does not follow that an all-in new Kennedy Round is the only alternative but it seems likely that separate pieces of negotiation will not be truly independent of one another.

#### Non-tariff Barriers

Some of the first American businessmen to complain about the results of the Kennedy Round charged that not enough had been done to reduce Europe's non-tariff barriers on American exports. That is a healthy emphasis that can lead to more good than the more familiar complaint of the past that American industry could not survive without tariff protection.

Non-tariff barriers are nothing new. Getting rid of quotas was one of the great aims of American trade policy in the first postwar decade. As the dollar shortage gave way to general convertibility, quotas were largely peeled away and tariffs once again resumed their importance. Now major reductions in tariffs are making other non-tariff barriers more prominent. Maintaining an attack on them should be a major feature of the next phase of American foreign trade policy. It will not be a simple matter. The wide variety of non-tariff barriers is the beginning of the difficulties -- but only the beginning.

The Kennedy Round has made people familiar with American Selling Price and European taxes on automobiles which discriminate against large cars. Buy American rules in this country and comparable government procurement practices in Europe are well known to businessmen. Marking and labelling regulations, laws about trademarks and patents, packing regulations, rules about health and safety are all examples of things that can be barriers to trade. Some of these "non-tariff" devices, like ASP, work by enhancing the effect of tariffs or making it difficult and costly for goods

to pass through customs. Trade by government agencies can be conducted so as to bar as well as to promote transactions, and to protect domestic production or discriminate between one foreign supplier and another. Any number of taxes and other kinds of charges may in one way or another impede trade, including perhaps some which for generations economists said were neutral in their impact.

It is not only variety but motive that makes the analysis of non-tariff barriers difficult. Some are used overtly to restrain imports. Others are used only covertly, under the guise of performing some other function, once perhaps their real purpose. In still other cases, the impediment to trade results from the legitimate pursuit of some honest public purpose.\* Grey areas abound and the categories overlap. Where barriers are overt, the questions are about the will and means to negotiate. In the second category, more demonstration is necessary though the negotiating problem is similar. In the third case, however, — the barriers that are incidental to something else — matters are more complicated. One has first to find the cases, then judge how much damage is really being done to foreign trade, and where. Then comes a process of finding ways to reduce the damage to trade without seriously interfering with the pursuit of the legitimate aims of the policy. That being done, there comes a weighing of the inescapable damage to trade against what is needed to pursue the purpose for which the regulations were imposed, a choice in which domestic and foreign interests may well conflict.

Taxes may be found in any of these categories. Those that are plainly subterfuges for tariffs will of course not pass muster under GATT or any other sensible international agreement about trade barriers. But as tariffs fall, many kinds of once-innocent taxes begin to look suspicious, especially for the discrimination they may hide. In recent years, long-established principles about the effect of "indirect" taxes on international trade have been called into question. Economists are questioning the facts and theories on which the rules about taxes in GATT and in other agreements are based. Their doubts coincide to a considerable degree with the businessman's commonsensical and untutored reaction that if his goods have to pay a tax on entry into a country while his competition's goods are exempted from the same tax when they are exported, he is at a disadvantage. After years of work, the six countries of the European Community have decided to harmonize at least the systems of their turnover taxes — and an aligning of

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\*I notice that officials of the U.S. government have recently been in Paris discussing the new automobile safety regulations with their European counterparts who, in turn, have to enforce national safety and other regulations which are incompatible with one another.

the rates will probably follow. In England and the United States questions are being asked as to whether it would not be helpful to the international competitive positions of those countries if part of the corporation income taxes were turned into this kind of transaction tax which would be forgiven on exports and levied on imports. The border tax issue may well be the most important of the non-tariff barriers to be fought over in the next few years. (And if it is not, it will be important to be sure why.) The issues are not simple; in some countries domestic considerations will outweigh foreign trade aspects. And if certain taxes are altered to improve the nation's foreign trade position, what questions may not eventually be raised about the rest of the tax burden?

The pursuit of non-tariff barriers leads far and into many corners. It does not stop with government action. Private business practices can be serious trade barriers. Of course what governments do or do not do to regulate businessmen is part of the problem. The laws vary greatly from country to country and enforcement is another question again; it may be legal to treat the foreigner as you may not treat your compatriot. Several postwar efforts to get international agreement on the regulation of restrictive private business practices have come to nothing. The process continues in a low key and no very important breakthroughs have been heralded, but if we are to look more intensively at non-tariff barriers these old subjects will have to rise in importance on the international agenda.

As my examples may have suggested, the long run problems of non-tariff barriers concern not only their range and variety but the uncertainty of what is a barrier and who is hurt by it. In the short run, though, while these questions are being studied, governmental action can focus on discernible barriers. Here the question is: How to deal with them?

Sometimes existing rules apply. That is the case with quotas on manufactured goods applied by industrialized countries in balance of payments difficulties. To the extent that such controls are not removed when the difficulties are over, the remedy is to press harder. Agriculture is something else again, to be discussed later, while the heavy incidence of controls on coal and oil suggests that the emergence of energy policy as a focus of governmental attention in Europe, North America and Japan may put yet another set of trade barriers in a "special" category.

The commonly heard statement that the remaining quotas on trade in manufactured products are of minor importance needs three qualifications. First, it does not apply to cotton textiles. Second, many European countries still apply quotas to a wide range of imports from low wage countries. Third, the rather good formal record of North American and European countries conceals a reliance on commitments by Japan (and to a degree other countries) to limit exports of certain products. It is hard to believe

that a general attack on non-tariff barriers -- which are apparently quite important in limiting imports into Japan -- could carry much conviction if it did not take account of "voluntary" export quotas like these.

When the question is not one of enforcement but of making new rules, the heterogeneity of non-tariff barriers poses problems. Some could be flatly banned but for most it would be a matter of making rules about their use and abuse. General rules covering a range of practices could be devised or codes of behavior drawn up. But would not a code that was general enough to apply to all non-tariff barriers be so general as to be meaningless? We shall, then, probably end up with a number of different agreements of rather different sorts. An agreement to prevent the misuse of antidumping procedures has come out of the Kennedy Round. There has been talk of a code covering government purchasing. Europeans believe it would help matters if the United States accepted the Brussels customs nomenclature and the practices common in other countries.

Something more is probably needed, some kind of consultation procedure. This would help to reveal which things are important and to whom. It would explore the possibility of adjustments that would make it unnecessary to go through the elaborate process of devising and negotiating an international code capable of regulating very different national situations. While bilateral adjustments may prove expedient, the most sensible approach to the most prevalent barriers would be to provide a place in one of the multilateral agencies to which countries could go with their complaints at the same time that they raised the issue with the offender. Out of the accumulation of case material might come a more objective study and appraisal than would otherwise be possible and some guidance as to relevant and enforceable rules. An agreement setting up this kind of procedure might also incorporate some broad principles about non-tariff barriers, but whether much would be gained by this step is hard to judge until we find whether major trading nations are ready to go beyond the broadest statements of principle.

The heterogeneity of non-tariff barriers makes for separate treatment. This will undoubtedly sometimes be the best way, as in the case of the antidumping code. But the separation of issues may make it impossible to agree on some of them. Countries are not equally interested in the removal of each type of barrier. For example, if negotiations had been over road taxes alone, what could the United States have offered the Europeans to persuade them to end their discriminatory practices? Formally or not, therefore, it may be necessary to link specific non-tariff barriers of quite disparate types. For the same reason, it seems unlikely that arrangements on non-tariff barriers can be totally separated from tariff bargaining.

How we negotiate about non-tariff barriers is related to where we do it. GATT and OECD both have claims. There seems no reason to choose one as the exclusive arena. Purely pragmatically one might pursue an issue in one place at one time, in another at another time, and sometimes in both. So far as logic goes, non-tariff barriers related to tariffs are certainly best discussed in GATT; some of those linked to invisible transactions and primarily of interest to industrialized countries might well be brought into the discussions of the OECD's code of liberalization. In between are a large number of issues that might reasonably be looked at in either place as opportunity offers.

The examples of non-tariff barriers already cited show how far afield from traditional trade negotiations we are likely to move in the next decade. All kinds of issues usually thought of as "domestic" may become the subject matter of international negotiations -- either because the United States asks it of others or they do of us. This may not happen quickly but in the long run it seems inevitable. This will in many ways be awkward. But little will be gained by trying to shy away from it. Indeed, if the United States wants to take a new initiative in international trade, as it has several times in the last generation, this might be the best to pick. In our present state of knowledge it is impossible to say whose trade is hardest hit by the sum total of non-tariff barriers, but there is at least an even chance that the United States has more to gain in this field than others and there can be no doubt that the world economy would benefit from the same degree of progress in removing non-tariff barriers in the next 30 years as has been achieved in reducing tariffs and removing quotas in the last 30 -- thanks largely to American initiatives.

If we are to do this, though, another problem arises, different from the others and also difficult: How can the United States most effectively negotiate about non-tariff barriers? The formula delegating powers to the President that has been used successfully in the Trade Agreements Act for over 30 years does not fit. It is not easy to see a clearly analogous definition of the power and its limits considering the variety of the issues and the extent to which domestic legislation is involved in them. But can there be effective negotiations if each agreement depends on positive Congressional action?

#### Agriculture

The new issues in trade policy discussed so far arise largely because of the progress made in the last twenty years in lowering tariffs and eliminating quotas on manufactured goods. The same cannot be said of trade in farm products; there the same old problems persist and trade barriers have probably been increased more than removed. For a long time many people have felt hopeless about the possibility of liberalizing agricultural

trade. The Kennedy Round has not brought a fundamental change but it has pointed to some possibilities.

Although the negotiators failed to work out a long run agreement assuring outsiders of continuing access to the European Community's market for products covered by the Common Agricultural Policy, they were on the right track. No doubt it was reasonable of the United States to turn down as insufficient the Community's offer limiting the degree of self-sufficiency that it would strive for in grains. However, the fact that this was the kind of issue discussed is a hopeful one, for it has become increasingly clear that, over a large segment of agricultural trade, negotiations can have a major effect only if basic policies are discussed. Negotiations confined to trade barriers will almost surely run into the same blocks as in the past. It is from domestic policies that the trade barriers are to a great degree derived. We are not used to discussing internationally such traditionally domestic matters as farm production goals, prices, land use, and surpluses. That course is difficult for any democratic country and it may be that the United States or others may not in the end be willing to go through with it. But there is a strong case for trying since the alternative seems to be to perpetuate an impasse of the sort we have known in the last 20 years.

This hard choice does not confront us for every farm product. There are quite a few on which conventional tariff reductions (or sometimes quota enlargements) are meaningful and satisfactory. We ought to try to keep as many products in that category as possible.

The grains agreement that has come out of the Kennedy Round demonstrates one more dimension of future agricultural trade negotiations among industrialized nations: they will be directly affected by the world food situation. Probably that will more often than not make agreement easier (because it will tend to increase demand and raise prices), but it will also extend the range of issues from trade barriers and domestic policies to aid, export subsidies and prices and the status of commercial shipments to poor countries.

#### Less Developed Countries

Instead of trying to deal comprehensively with what is now coming to be called North-South trade, I shall make only a few general remarks, trying to give a perspective.

"Trade not aid" has always had a healthy sound to Americans. More trade would certainly be good for the less developed countries; they earn far more foreign exchange from exports than they get in aid. But there are probably not many underdeveloped countries for which the alternatives are

mutually exclusive. In most places adequate development will probably require both aid and increased opportunities to trade; often, the basic question will be what proportions should be maintained between these two things. And that in turn will depend to an important degree on how much the United States and other industrialized countries will do to open their domestic markets further to competing goods.

There is no doubt that many less developed countries could gain substantially if barriers to their sales of agricultural products and minerals were reduced. The protection the United States and Western European countries give their domestic producers often hits the less developed countries. What is more the tariff structures of the industrial countries discourage the growth of processing industries in the less developed countries. This results from having duties which are relatively low on raw materials and mount as the degree of processing increases. Canada has complained of this aspect of the American tariff for years and for the less developed countries the effect can be serious. The processing of local raw materials is apt to be one of the sounder bases for industrialization, so the elimination of barriers that discourage it would seem to have an added attraction, in addition to improving the export position of the less developed countries.

It is unfortunate, in my opinion, that so much of the recent discussion about exports of manufactured goods from the less developed countries has been about giving them tariff preferences so that they would be subject to lower duties than products coming from rich countries. The real issue is freer access to the markets of the developed countries. Whether preferences would be a good way of getting that access, or enhancing it, is a subsequent question. I fear that working on plans for future preferences has kept governments in less developed countries from pressing Europe and North America as hard as they might to remove present barriers. To a degree, the arguments over preferences have served as an excuse for some industrialized countries to sit tight with their existing limited preferences while the pressure grows on the United States to do something to compensate Latin America for being left out of the British and European preferential arrangements. There is certainly a case for lowering barriers to imports from Latin America, but what good would it do the United States to do that at the expense of Asian or African countries? One of the hard problems of the near future will be to decide how far the United States should go in acting alone if it cannot work out satisfactory arrangements with the Common Market, Britain and perhaps Japan about preferences.

If, for whatever reasons, the United States goes along with the idea of granting preferences to the manufactured goods of the less developed countries, it should try to insure that they satisfy three criteria. They should not discriminate among LDCs, they should be limited in time (by reducing the general rate, not raising the preferential one); and they should not be

allowed to hold up the removal of duties on imports from advanced countries. There is a good case for giving the full Kennedy Round concessions to the LDCs right away, but it is doubtful how much they could benefit from such a step.

The real question is access, not whether access comes in a preferential form. Unless the governments of developed countries are willing to confront that fact and accept the idea of taking more competing imports, it will do little good to talk about preferences. Some who advocate preferences do so because they fear that Europe and North America will not alter their agricultural protectionism and therefore should give the LDCs at least something that they want. If that advice is followed -- more for diplomatic than economic reasons, it would seem -- the question will be how generous an offer will be made and how many exceptions the United States or other advanced countries will insist on making. Unfortunately, there are good grounds for fearing that any system of enlarged preferences likely to be put forward in the next few years will be limited in scope, ringed around with qualifications, and riddled with exceptions. The rather attractive idea of avoiding rigid rules and permitting each industrialized country to be somewhat restrictive where its own domestic sensitivities are greatest is only too likely, in my opinion, not only to fail to encourage generosity on other products but to lead to the less developed countries being given what they can least use and being denied freer access to markets in which they could really make progress. How much diplomatic or political advantage will the United States, or the other developed countries, get from such a development? How much economic advantage will the LDCs get from a preferential system in which the goods they can most successfully export in quantity are limited by quotas?

Inevitably the Long-term Cotton Textile Arrangement comes to mind. It is a document that looks two ways, professing to provide an orderly expansion of markets for the exports of less developed countries while permitting importing countries to make or keep arrangements that in themselves are restrictive. The results may be ambiguous: because of shifts in trade among the 64 categories established in the agreement, it is hard to judge the full meaning of figures showing sizeable increases in imports. Who has benefitted, at whose expense and in what degree is hard to tell. But this kind of reality cannot be left out of account when general declarations are made about the importance of helping the less developed countries expand their exports.

While cotton textiles are by far the most important manufactured goods exported by the less developed countries, there are others and, if development is to proceed, the list will have to grow. In spite of the rich man's label that has been put on the Kennedy Round, it includes a large number of tariff concessions from which less developed countries can benefit,

provided they produce and export these products cheaply enough and market them effectively. If they can take advantage of this access that has been given them, and even more if the access can be improved by future trade barrier reductions, they can make important gains. By accepting increased import competition from the less developed countries, in agriculture, mining, processing and manufacturing, the rich countries open new possibilities for the effective use of aid and investment as levers of development.

#### East-West Trade

As I see it, there are four main questions to be considered.

First, should we relax export controls on sales to the Eastern countries? These are matters which are to a considerable degree within the discretion of the President but it is understandable that he should want an indication of Congressional support for expanding trade before using what was originally restrictive legislation in this way. So far as practical effects go, there appear to be relatively few cases in which the American restrictions present major difficulties for the U.S.S.R. or East European countries, except perhaps in the short run for certain strategic items or advanced technologies. Another question that then arises is how far we should go in granting credit.

The second question is whether the President should be given power to grant most-favored-nation treatment to the Communist countries if he feels he has carried on satisfactory negotiations with them. Here the considerations are quite different in dealing with the U.S.S.R. and with the smaller East European countries. For the latter, it is a question whether we can improve their freedom of choice in the world by giving them easier access to this market. For the former, it is primarily a question of whether we would like to add trade to the list of issues on which Moscow and Washington can effectively negotiate as part of their continuing dialogue. The potential economic gains to the United States from such steps are, in my opinion, quite secondary to these broader considerations. It seems foolish to impose rigidities on ourselves without gaining any obvious economic and political advantages.

The third question is what to ask for in return for most-favored-nation treatment. Under systems of state trading, a reciprocal promise of equal treatment has little value. The reforms being introduced in most of the Communist countries may make that pledge somewhat more meaningful in the future and we should certainly insist on having it just in case that turns out to be true. A range of things affecting trade can suitably be incorporated in agreements with the Communist countries to reciprocate for the American grant of 'mfn.' No one of them is guaranteed to work. Few

have the simplicity of rules about tariffs and quotas that we are used to. We must, therefore, have an experimental approach in what we do. That is one reason that it will be wise to make agreements that are subject to review or renegotiation after a few years.

The fourth decision concerns bringing the Communist countries into GATT. Here we face the same kind of problem we do in bilateral relations. GATT rules have little to say about the conduct of state trading countries and, consequently, offer less assurance to other signatories of the agreement. Special arrangement, such as those that have been worked out with Poland, have a certain value, though again they set up trading arrangements that are not wholly satisfactory. There is value, though, in bringing the Communist countries into GATT on some basis as a way of providing for the discussion of common problems. The thing to understand is that their membership does not solve these problems but only opens up opportunities to work effectively on them and to experiment as long as both sides are willing. Safeguards against risk of serious loss should not be too hard to devise.

#### Some Other Dimensions

In this sketch of some of the main elements on the agenda of United States foreign trade policy in the post-Kennedy Round period I have made the tacit assumption that the way to remove trade barriers in the future is the way it has been done in the past, by bargaining with other countries. We remove our barriers, they remove theirs. We are, after all, not talking about something the United States can do all by itself, nor have we very good means of persuading other countries to remove barriers except by offering them something. It is true that this view runs full in the face of much economic logic which shows that since it is the American economy that suffers from putting impediments in the way of its imports, unilateral action to remove them would be a good turn to ourselves. Nevertheless, the advantage of bargaining as a way of dealing with the rest of the world (which is not likely to respond simply to high-minded example) is to me compelling.

A word of caution is in order about how we think of reciprocity. The balancing of statistics showing how much trade is affected by what each country has done has never been entirely satisfactory. The real national interest lies in the consequences of trade barrier reduction, not in its anterior circumstances. As an increasing number of domestic activities are drawn into the trade negotiations in the manner described above, it will become increasingly meaningless to try to find a common measure for judging the exact value of what each country has done. A broader view of what constitutes satisfactory performance seems needed. That conclusion is suggested, too, by the widespread acceptance of the idea that is impossible

to ask less developed countries for reciprocal reduction of trade barriers. It does not follow that nothing should be asked of them, since their ability to take advantage of trade concessions made to them will depend to an important degree on their own policies. This broadening of the approach to trade may also lead us to conclude that sometimes unilateral action may be the best course even if, under the old vocabulary, the United States seemed to be giving something away.

Great as the postwar expansion of international trade has been, the increase in American direct investment abroad has been greater. An important part of the total is made up of investment in manufacturing industry in Canada, Britain, Western Europe, and, to a degree, Japan, our major trade partners. How should we think about the very substantial sales by American-owned manufacturing companies abroad which in 1965 were double our exports of manufactured goods? Are they additions to our exports, displacements of them, or a partial replacement of exports that would have been wholly lost to foreign suppliers if there had not been American-owned companies abroad? Subsidiaries, either by their own purchases from the United States or by the stimuli that they give to American sales abroad through their dealings with foreign buyers, influence American exports. How do the amounts compare to the drain on the U.S. balance of payments represented by the movement of capital abroad? Clearly, the scope of what we have to think about when we speak of "the foreign trade of the United States" has broadened even beyond the range suggested by the discussion of non-tariff barriers.

The growth of overseas investment is stimulating interest in the development of truly multinational corporations. For them international trade is an intra-corporate transaction. What do tariffs and other trade barriers mean to them? Are changes in these barriers likely to have important effects on the corporation's behavior? We know very little of these matters, but it seems to me certain that the more they are examined, the greater the increase in the number of issues that will have to be taken into account when we talk about trade policy. The same is almost certain to be true of the investigation into the way technological change and innovation affect international trade. The consequence will be a further widening of the range of government policies that will have to be thought of as affecting foreign trade.

Quite a different kind of alteration of established attitudes toward traditional trade barriers results from the growth of economic regionalism as an important factor in world trade. The common external tariff of the European Community is not just an economic instrument; it is also part of the institutional cement that holds the group together. How long this will be true is hard to say, but it is in the American interest, and I believe in the interest of true integration in Europe too, to press the view

that other ties than commercial discrimination must become strong enough to justify the great effort that has been made to change the historical face of that continent. Meanwhile, though, there is not only a political but a functional difference between the common tariff and national tariffs. What is behind the common tariff is not a single economic and political entity so the process of deciding what the Community's tariff should be is complicated both procedurally and substantively by national differences.

As regionalism grows in the rest of the world, the question is more frequently asked whether the United States should not be finding partners with whom to form some kind of common market or other preferential trading area. Politically there are all sorts of difficulties about this approach, most of them going back to the simple fact that while such a grouping removes barriers to trade among the members it sharpens the distinction between members and non-members. Whom would the United States like to exclude? Economically, too, it is hard to put together a grouping that promises the United States substantially greater advantages than might be obtained from a global reduction of trade barriers on a non-discriminatory basis.

A possible exception to the generally negative conclusion to which these two arguments point is the idea of some closer association between the United States and Canada. The two economies are already extraordinarily intertwined and a surprising amount of their trade is free of barriers. The idea of completely eliminating tariffs between them is an old one on which Canadians have blown hot and cold and in the end always rejected. Now there are again stirrings on this subject north of the border but what will come of them is not clear. Since both the greatest gains and the greatest disturbances of any major step toward trade integration between the two countries would be Canadian, I suggest that the proper posture for Americans is to wait and see and be prepared to talk about ways and means and goals if the Canadians should make up their minds that closer trade integration with the United States is something they want.

The growth of regionalism and foreign preferential groupings has made some Americans wonder if the United States should abandon the principle of equal treatment which has been a basic element of our trade policy. Exceptions, waivers, and violations of the most-favored-nation clause have been cited to strengthen the case. Perhaps the greatest stimulus of all to such thinking was the fear that the Kennedy Round would be spoiled by the refusal of one major partner to agree to terms acceptable to all the others. Although that hazard has been passed, it remains true that the most-favored-nation principle can sometimes slow progress in liberalization to the speed acceptable to a single major trading nation. Nevertheless, in spite of all these considerations it would be unwise to deprecate or depreciate the principle of equal treatment, much less to jettison it.

What substitute is there for it in the rational ordering of world trade? Economists can show that some mixture of discriminatory arrangements can maximize welfare in certain circumstances, but can they turn their analysis into effective policies? Discrimination may benefit any given number of countries at one time or another, but to give nations freedom to discriminate is unlikely to produce the greatest benefit for all. Since a guiding principle is necessary to shape a world trading system it is hard to see what rule can apply generally except that of equality.

Even massive departures from a rule need not destroy it if they have an orderly basis. One proof of GATT's worth was its flexibility in permitting European discrimination against American goods when dollars were short and pressing them to restore equality when their currencies became convertible. The less developed countries are now being permitted many departures from the rules that are being applied to other countries, and with good reason, but it is equally sensible to work out a way for them to come back to normal standards as their situations improve. One of the aims of liberalizing East-West trade is to bring at least some of these countries into an easier relation with others in the world trading system. Replacing the bilateralism now prevalent in East-West exchanges with some kind of multilateralism would benefit Eastern and Western countries alike. As an organizing principle for world trade equal treatment remains of fundamental importance. In its practical effects it is an important if imperfect safeguard against discrimination directed against the United States. Unless this country is clear about equal treatment and vigorous in furthering it, the erosion of recent years is likely to grow, to the detriment of the United States and the decrease in the chances for making the world trading system more rational.

Breaking down problems as I have done in the foregoing sketch may suggest that the United States should have not one trade policy but at least three -- for industrial countries, less developed countries, and Communist countries -- or perhaps even four if we count agriculture separately. In a sense this is correct but it is also misleading. The policies differ because they cope with different problems and exploit different ranges of possibility. The aims they serve, while not identical, must in a high degree overlap. Serving the interests of one country, these separate policies cannot make sense if they conflict with one another persistently or to an important degree -- though some inconsistency is natural in a pluralistic society. The separation that is needed to pursue some ends effectively has to be accompanied by a common view of the whole, as to both ends and means.

Another factor that might make for fragmentation is the parcelling out of trade tasks among a number of international agencies, notably GATT, OECD, UNCTAD and, in a more limited way, ECE and the agencies for hemispheric

cooperation in which United States relations with Latin American common markets and free trade areas are discussed. All this is in addition to direct negotiations with other governments and the European Economic Community, and in such bilateral bodies as the joint meetings of Cabinet members we have with Canada and Japan. No doubt there is some confusion, some overlap, some duplication; to an outsider it does not yet seem to have reached an alarming level, but that is the sort of thing on which the testimony of those closer to the events is more valuable. There is certainly a potential problem for the future. It is complicated by the fact that the criterion cannot be just neatness and order; we must ask, too, where action will be most effective and how American policy can best be furthered. The answer may differ at different times and vary according to issues. What is more it may not always be apparent and there may be a need for probing or experimentation that will entail duplication and some waste.

Unfortunately the ramification of trade policy described earlier in this paper is going to make the choice of forums more difficult, just as it will make the process of negotiation more complicated. The drawing into trade negotiations of many matters not formerly thought of as being part of trade policy is bound to have that effect. To the extent that any given issue can be separately pursued, one forum or another -- including some not generally thought of as the loci of trade negotiations -- may appear suitable, but such partial solutions will still leave the problem of the interrelatedness of all issues for bargaining purposes which has been mentioned several times above. It is probably not wise to try to lay down a rigid formula to cover all cases, but unless one has some principles in mind and some rough guidelines for practice there is a risk, not only of confusion, but of a failure of policy. This is true because the long run aims of American trade policy must include the building and maintenance of a world trading economy and that goal is affected not only by the competence of organizations but by the rules that surround them.

The three organizations most involved -- GATT, the OECD and UNCTAD -- have sufficiently distinctive characteristics to suggest a rough division of labor (though the difficult problems may lie in the refinements). UNCTAD, the newest of the three, is an invaluable prod forcing the United States and other developed countries to give more attention to the problems of the less developed countries than they would otherwise. For this reason we should welcome UNCTAD and help to make its examination of problems penetrating as well as vigorous. It does not follow that the action which governments take in response to UNCTAD discussions need always be taken in UNCTAD. No doubt there will be some matters on which special UNCTAD-sponsored agreements will be in order, but UNCTAD's essential function is to insure that the needs of development are never absent from the consideration of trade policies. It can do that no matter what form an agreement

finally takes, or even if key countries take national action without formal agreement. In dealing with trade barriers it seems likely that some of UNCTAD's most important results might manifest themselves in the removal of quotas and the reduction of duties through GATT procedures, since it is not wise to treat the trade of the less developed countries as if it were separate from the body of world trade as a whole.

The OECD -- the middle-aged member of this trio -- has already been the scene of a number of trade discussions and has under its aegis a code of liberalization of invisible transactions that has a certain relation to some kinds of non-tariff barriers. On the face of it, OECD is preeminently suited to deal with questions that are of primary interest to the industrialized countries -- but it is not always crystal clear which those questions are, especially as the economies of the most developed of the less developed countries become more complex. (It can of course be made possible for a few non-member countries with special interest to take part in OECD deliberations.) Another function frequently recommended for OECD is as an "antechamber to GATT" (or UNCTAD), a place where the industrialized countries try to achieve some degree of harmonization among their own policies before engaging in negotiations with others. Up to a point this too seems plausible, but there are two caveats. First, the industrialized countries have not shown themselves very proficient at coordinating their trade policies, whether on preferences for less developed countries or East-West trade -- but that is not the organization's fault. Second, if they were to be successful in finding common fronts, delicate questions would arise about how far they could wisely go in reaching understandings before negotiating with outsiders. If, for example, a cotton textile agreement had been drafted in OECD and then submitted to non-members it is unlikely that some of the exporting countries would have accepted terms that they finally agreed to in the arrangement negotiated under the sponsorship of GATT. (And, of course, the agreement might not have been the same.)

GATT, once thought of as a temporary agreement and technically not an organization at all, not only has shown great survival value but has something both UNCTAD and OECD lack, a comprehensive body of rules about international trade. And that is crucial -- far more important than organizational strengths or weaknesses. No doubt the rules have weaknesses, and changes will be needed to deal with some of the trade problems of the next decade. No doubt procedures and organizational arrangements can be improved. But one need only consider the achievement of the Kennedy Round to realize not only the importance of GATT but the extraordinary labor (and risks of failure) that would be involved in trying to build a new code of trade policy on a different foundation. The separation of issues will no doubt sometimes make it sensible to deal with certain kinds of problems outside GATT, though the need to match concessions on otherwise

unrelated matters in order to strike bargains may tend to pull issues toward GATT. It would probably not be wise to try to find a place for every trade issue in a revised GATT structure, but a good general guide might be the maxim suggested by my colleague, Helena Stalson: Do it in GATT unless it can clearly be done better somewhere else. And in making that judgment, the prime consideration is not just whether it is easier to get agreement in one place rather than another, but what the effect of the agreement is likely to be on the structure of world trade. In facing the issues outlined in this paper, the United States will find that its interest in coherence and order in the system of world trade will usually be best served by strengthening the position of GATT and the principle of equal treatment it embodies.

QUELQUES REFLEXIONS SUR LES RELATIONS COMMERCIALES  
APRES LE KENNEDY-ROUND

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Il y a maintenant cinq mois que les divers actes, protocoles et autres instruments, qui formaient dans leur ensemble les résultats du Kennedy-Round, furent signés ou paraphés dans la grande Salle de l'Assemblée du Palais des Nations à Genève.

Ce laps de temps permet à la réflexion et à l'analyse de commencer à mieux saisir dans ses grandes lignes la portée, dans une perspective dynamique, de ce qui a été réalisé sur la base de données nécessairement statiques et conduit à s'étonner encore plus de la sorte de "miracle" que constitue le fait d'être arrivé à un résultat d'une telle ampleur.

Mais cette réflexion et cette analyse sont-elles suffisamment avancées pour que l'on puisse déjà être en mesure de discuter sérieusement des voies et moyens pour entreprendre un nouveau pas en avant sur le terrain de la politique commerciale multilatérale? Je ne crois pas qu'il y ait un gouvernement qui soit disposé à envisager de nouvelles négociations avant de savoir avec plus de précision à partir de quelles bases et selon quelles données il est en mesure de le faire, en d'autres termes avant d'avoir une image précise de la situation issue des grandes négociations qui viennent de se terminer. Un temps de réflexion et d'analyse s'impose d'autant plus que non seulement les réductions des tarifs industriels sont en moyenne très élevées, mais encore, et ceci est plus important, pour un grand nombre de produits la réduction atteint 50% et de plus, c'est seulement dans cinq ans qu'interviendra le plein effet de ces concessions. Ce n'est donc pas encore demain qu'il sera possible de disposer de l'expérience indispensable que fournira la mise en oeuvre progressive des engagements qui ont été pris.

D'autre part, il est évident qu'il convient de ne pas oublier que, comme toute autre politique, la politique commerciale est une création dynamique incessante. Les exigences de ce dynamisme même n'autorisent pas de s'installer dans l'attente immobile de voir ce qui va se passer.

Une telle attitude serait tout particulièrement dangereuse face aux intérêts toujours à l'oeuvre pour revendiquer une meilleure protection à l'égard de leurs concurrents et dont la voix dans tous les pays se fait toujours entendre plus fort et avec plus d'insistance que celle des courants qui, inspirés par des considérations d'intérêt général, se tournent vers le libre échange.

Une attitude d'expectative et d'inactivité risquerait donc fort dans ce domaine, comme d'ailleurs dans bien d'autres aspects de la vie humaine, de laisser la voie libre à une réaction visant à neutraliser les résultats acquis. Il suffit, pour prendre conscience de la réalité de ce danger, de songer aux tendances qui se manifestent en ce moment au Congrès Américain et qui ne sont, il est honnête de le reconnaître, que la manifestation d'un mouvement qui partout se prépare à l'assaut et se servira de toutes les occasions propices.

Entre les deux extrêmes que représentent un activisme imprudent et un immobilisme irresponsable, où se situe donc la voie moyenne, la voie de l'action prudente et réfléchie?

Ce ne sont pas les domaines qui manquent pour exercer une telle action et définir son programme. D'abord il s'agit d'assurer la mise en oeuvre des résultats du Kennedy-Round et de suivre avec la plus grande attention l'évolution et les effets de cette mise en oeuvre afin de pouvoir intervenir à temps collectivement et éviter que d'éventuelles difficultés ne se traduisent immédiatement par des mesures individuelles mettant en danger ou remettant en question les résultats obtenus soit dans le pays où des difficultés se produisent, soit ailleurs.

Il s'agit ensuite d'analyser de façon approfondie la situation qui existera lorsque les résultats du Kennedy-Round auront produit leur plein effet afin de pouvoir apprécier et juger à un stade ultérieur des possibilités et des limites d'une nouvelle action vers la réalisation d'une libéralisation plus poussée du commerce mondial.

Il n'est naturellement pas possible, dans le cadre limité de ce papier, de dresser, même sous forme d'esquisse, le programme de travail qu'implique cette entreprise. Je me limiterai donc à présenter, sans prétendre être complet, quelques éléments d'ordre économique susceptibles de faire utilement l'objet de la réflexion et de la discussion.

Pour ce faire, je vous invite à suivre un plan qui devient pratiquement "traditionnel" en distinguant trois grands domaines, à savoir: les problèmes industriels, les problèmes agricoles et les problèmes particuliers que pose le commerce des pays en voie de développement.

### Industrie

C'est sur le terrain de la réduction des tarifs des produits industriels que les résultats au Kennedy-Round sont les plus spectaculaires.

Se limiter au pourcentage moyen de réduction qui a été atteint est bien loin de suffire pour disposer d'une appréciation solide de la situation. Une analyse plus complexe et plus détaillée est indispensable. En effet, cette moyenne ressort de la somme des produits dont un certain nombre ont fait l'objet de réductions tarifaires de l'ordre de 50% et parfois supérieures tandis que pour d'autres produits la protection sera réduite dans une mesure moindre ou pas du tout. En outre, l'échelle de réduction ainsi établie ne coïncide pas entre tous les pays.

Ils peuvent donc apparaître des modifications importantes dans la structure des tarifs sous un double aspect, d'une part la relation existant quant à la protection aux divers stades de la transformation dans un même pays et d'autre part la relation entre la protection d'un même produit dans les différents pays. Cet aspect mérite d'ailleurs une étude dépassant le seul cadre des modifications résultant du Kennedy-Round. Le problème des disparités qui a été posé, mais certainement pas résolu pendant ces négociations trouvera d'ailleurs sa place dans une telle étude.

On sera peut-être tenté de demander quelle est l'utilité d'une telle étude puisque jusqu'ici les réductions tarifaires ont été opérées sur la base de données classiques de calcul de la réciprocité et d'appréciations plus ou moins subjectives des avantages mutuels, bien plus que sur celle d'analyses économiques telle que nous les suggérons.

Ceci est exact, mais il s'agit du passé, il est douteux qu'il puisse encore en être de même à l'avenir. Deux considérations motivent une telle position:

1. Grâce à la formule de négociation appliquée dans le Kennedy-Round on peut estimer qu'il est probable que la plus grande partie de "l'air" qui se trouvait encore dans les tarifs douaniers a disparu (j'entends par "air" toute la partie d'un tarif qui n'est pas fondée sur des impératifs économiques proprement dits et qui peut donc disparaître sans entraîner de conséquences économiques). Seule une analyse approfondie permettra d'établir ce qui en est exactement et dira s'il est ou non vrai qu'un droit a atteint ce point limite et pourquoi. Ceci étant établi, il sera ensuite possible de chercher dans quelles conditions un nouveau progrès peut-être réalisé.
2. On peut se demander désormais si les conditions classiques fondant la notion de "réciprocité" ne doivent pas faire l'objet d'un réexamen sérieux. En effet, les tarifs actuels sont issus pour une grande partie d'une série de décisions autonomes et de négociations successives dont les résultats, considérés

considérés à ce stade, ne sont plus nécessairement adaptés aux conditions économiques de concurrence telles qu'elles se définissent actuellement, compte tenu également du développement de la technologie et de l'évolution des relations monétaires.

La réalité des problèmes qui se posent et la nécessité d'une nouvelle réflexion n'ont d'ailleurs pas échappé aux Parties Contractantes du GATT qui viennent de tenir à Genève leur XXIVème Session et ont décidé la création d'un Comité du commerce des produits industriels qui aura pour première tâche de procéder à une analyse objective de la situation tarifaire telle qu'elle se présentera lorsque toutes les concessions résultant des négociations Kennedy seront entièrement appliquées.

Est-il déjà possible de définir quelques-uns des problèmes qui se poseront dans l'avenir ? Certainement. L'expérience faite dans le Kennedy-round fournit des indications qu'il est utile de retenir. Cependant, ici également, il serait dangereux de procéder à des généralisations, d'autre part une analyse complète dépasserait largement les limites de ce papier. Restons-en donc à quelques grandes lignes.

Une première catégorie de produits pour lesquels se posent des problèmes particuliers est celle des biens de consommation durables ou semi-durables, notamment les textiles, les chaussures, les articles ménagers y compris les appareils ménagers électriques. Il s'agit là de productions traditionnelles qui occupent une place importante dans pratiquement tous les pays. Trois facteurs font obstacle pour ces produits à la possibilité de pousser la libéralisation du commerce au-delà d'un certain point :

- 1) Le fait qu'il s'agit pour de nombreux pays d'industries qui se trouvent encore à un stade plutôt artisanal, tandis que d'autres pays ont atteint un degré plus avancé de technique. Souvent, ces industries, grosses consommatrices de main-d'oeuvre, représentent une condition de survie pour des régions économiquement défavorisées et posant de ce fait des problèmes sociaux dont la meilleure volonté de libéralisation ne peut faire abstraction.
- 2) Ces industries sont naturellement les premières et les plus appropriées pour entreprendre un processus d'industrialisation dans les pays en voie de développement. Ceux-ci disposant d'une main-d'oeuvre à meilleur marché se trouvent placés dans des conditions de concurrence relativement plus favorables.

- 3) Un autre problème de concurrence est posé par les pays de l'Est qui dans le cadre d'une économie planifiée sont en mesure de fixer des prix sans relation directe avec le prix de revient des produits en cause.

Nous reviendrons sur ces problèmes plus loin à propos du commerce avec les pays en voie de développement, mais on peut déjà constater que les possibilités de nouveaux progrès dans ce secteur sont assez limitées aussi longtemps que n'aura pu être réalisée une meilleure coordination des politiques industrielles dans le sens le plus large de ce terme. Nul besoin est d'expliquer combien complexes et difficiles sont les problèmes à surmonter dans ce contexte.

Une deuxième branche d'activité dans laquelle se posent des problèmes spéciaux est celle des productions pour lesquelles certains pays disposent à la fois d'une forte concentration des matières premières et de sources d'énergie à bon marché et jouent de ce fait un rôle prépondérant dans les conditions de concurrence. Ceci concerne par exemple les industries des pâtes et papier et de l'aluminium. L'intégration verticale de plus en plus poussée de ces branches de production dans les pays en cause est un facteur qui rend de plus en plus âpre la lutte pour la participation au commerce de ces produits.

Il faut enfin mentionner le problème de plus en plus sensible des industries les plus modernes dont le développement est fonction du degré d'avance technologique et de la capacité d'investir. Le problème est bien connu sous le nom de "technological gap". Sur le plan de la politique commerciale deux dangers doivent être évités, d'une part celui d'annuler les efforts de développement dans les pays moins favorisés en privant leurs industries d'une protection indispensable et d'autre part celui d'offrir, grâce à une protection élevée, un terrain de choix aux investissements étrangers des pays plus avancés. Cette situation demande des décisions politiques dont le dosage est délicat et qui relèvent d'appréciations particulièrement difficiles.

Les considérations qui précèdent suffisent déjà à montrer que les chances pour de nouvelles négociations fructueuses, après les grands efforts qui ont caractérisé le Kennedy-round, ne pourront être appréciées qu'après avoir approfondi sérieusement les données des problèmes de base dont l'importance et l'influence deviennent d'autant plus grandes que dans bon nombre de cas le "hard-core" de la protection douanière a été atteint.

Peut-on dans ces circonstances, et cela est-il opportun, commencer à envisager les méthodes et techniques à appliquer dans une future négociation ? Je suis fortement enclin à répondre par la négative, on ne s'en étonnera probablement pas.

Quelques suggestions sont déjà avancées dans ce sens, examinons les rapidement.

On propose par exemple l'élimination des droits bas, on avance à ce sujet le plafond de 5 %, sous prétexte que ceux-ci n'ont pas d'effet protecteur et peuvent être qualifiés de "nuisance tariffs". Ce qualificatif ne nous paraît guère convainquant si l'on considère que ce n'est pas le niveau du tarif en soi qui gêne le commerce, mais bien davantage le contrôle douanier et les formalités qu'il implique. Or celles-ci resteront ce qu'elles sont.

En fait, je crois que le qualificatif de "nuisance" s'appliquerait avec plus de justification aux droits élevés. De toute façon il n'est pas possible de juger dans l'abstrait de la valeur ou non-valeur d'un droit en tant que protection en partant d'une formule générale nécessairement arbitraire. Une appréciation dûment fondée ne peut faire abstraction de la situation spécifique du produit et notamment de son stade d'ouvrage. Sans doute un taux de 5 % est-il sans valeur appliqué à un produit fini, mais il peut revêtir une véritable signification dans le cas d'une matière première ou d'un demi-produit. Ce pourcentage peut représenter exactement la différence nécessaire pour assurer sur le marché intérieur un niveau de prix jugé nécessaire.

A ce propos, il est peut-être bon de relever qu'actuellement le rôle des tarifs consiste bien souvent plus à servir de régulateur des prix internes qu'à exercer une protection au sens classique de ce terme. C'est-à-dire à mettre à l'abri de la concurrence étrangère. La question est donc bien plus complexe qu'il n'y paraît à première vue et si "nuisance tariffs" il y a, encore faut-il rechercher cas par cas où ceux-ci se trouvent quelque soit leur niveau.

Une autre suggestion consiste à désigner certains secteurs importants et bien définis comme pouvant faire l'objet d'une réduction massive et générale des tarifs, voire même d'un libre échange.

La réponse à cet égard doit être plus nuancée. On a vu plus haut qu'une analyse de la situation post-Kennedy-round par secteur est indispensable, mais en tirer déjà la conclusion qu'il doit être possible de négocier l'instauration du libre échange pour certains secteurs c'est aller trop loin à l'aveugle. Nous n'excluons pas non plus que certaines possibilités puissent

exister, mais voulons réserver notre position jusqu'à ce que toutes les analyses nécessaires soient achevées et permettent d'en juger en connaissance de cause. En tous cas, nous tenons à mettre en garde contre une complication qui surgira inévitablement, celle de savoir comment choisir les secteurs afin d'assurer qu'une négociation sur cette base puisse aboutir à des résultats équitables et équilibrés entre les divers intérêts en présence.

Je ne veux pas quitter le domaine industriel sans aborder encore la question des obstacles para-tarifaires et non-tarifaires. Dans ce domaine il existe peut-être la possibilité d'entreprendre une action à plus bref délai. Les résolutions ministérielles de 1963 couvrent ce point, elles sont confirmées par celles de 1964 à l'ouverture du Kennedy-round. Il n'a malheureusement pas été possible, faute de temps, d'inclure valablement ce domaine dans la négociation. La nature de ces obstacles est telle qu'ils échappent à toute tentative visant à définir des règles d'application générale. Leur variété et leur diversité va des restrictions quantitatives aux mesures phyto-sanitaires en passant par les mesures de sécurité pour les automobiles. Cela implique qu'il n'est possible de les traiter que cas par cas de façon purement pragmatique. Une autre difficulté vient de ce que de telles mesures ne sont normalement pas - sauf exceptions - appliquées pour des raisons protectionnistes, mais relèvent de motivations parfaitement respectables et valables. Elles n'en contiennent pas moins un élément de discrimination.

Demander purement et simplement la suppression de telles mesures serait, pour utiliser une expression néerlandaise, "jeter l'enfant avec l'eau de son bain".

Par contre, lorsque ces mesures ont un but et un effet protectionniste évident, telles les restrictions quantitatives, il convient de les traiter comme telles.

On voit qu'il y a encore ici ample matière à discussion et l'on ne peut que se féliciter de l'heureuse initiative prise par les Parties Contractantes du GATT qui ont donné pour tâche au Comité pour le commerce des Produits Industriels de dresser dans un premier stade un inventaire aussi complet que possible des mesures en cause pour procéder ensuite à leur examen.

## Agriculture

Les résultats du Kennedy-round dans le domaine du commerce des produits agricoles ont été, tout le monde le reconnaît, moins spectaculaires que ceux obtenus pour les produits industriels.

Ceci ne pouvait être une surprise pour qui connaît les difficultés rencontrées par toutes les négociations dans ce secteur.

Afin de savoir comment agir à l'avenir pour s'assurer de meilleures chances de succès, il convient de s'interroger sur les raisons pour lesquelles les résultats atteints ont été aussi nettement moins substantiels. Ces raisons sont bien connues, nous les rappellerons brièvement :

- 1) Etant donné la structure de l'entreprise agricole dans la plupart des pays et tout particulièrement en Europe, il existe une relation immédiate entre les prix des produits et la rémunération de ceux qui travaillent dans cette entreprise.
- 2) Dans pratiquement tous les pays, les gouvernements ont été amenés, pour des raisons d'équité sociale, à prendre des mesures de soutien des prix pour assurer un niveau équitable de rémunération à ces couches de la population.
- 3) Malgré ces mesures d'intervention, le niveau de la rémunération des travailleurs agricoles reste encore nettement inférieur à celui des travailleurs industriels.
- 4) Il n'y a pas un gouvernement qui n'ait pris un ensemble de mesures propres à isoler ses agriculteurs des fluctuations et des aléas des prix sur le marché mondial et visant dans la plupart des cas à leur assurer un prix plus élevé que celui du marché mondial.
- 5) Bien que visant en principe le même but, les mesures en cause sont très différentes selon les pays, souvent très complexes et concernant tant la protection à la frontière que la production elle-même, l'accent étant plus ou moins marqué sur l'un ou l'autre aspect selon les pays.

Cette série de constatations conduit tout naturellement à une série de conclusions en matière de politique commerciale et notamment en matière de discussions sur le plan international. D'abord il est évident que, contrairement au domaine industriel, une négociation ne peut pas se limiter à ne prendre en considération que ce qui se passe à la frontière. Il suffit pour en donner la preuve de noter que pour assurer aux agriculteurs un prix plus élevé on peut recourir soit à la taxation des importations, soit à la subvention directe à la production. Le résultat est le même quant aux effets

.../...

sur les possibilités de commerce et une négociation limitée aux mesures à la frontière permettrait aux pays qui appliquent le système de subvention directe à la production d'échapper à tout engagement.

Pour placer tous les partenaires sur un pied d'égalité vis-à-vis des responsabilités à assumer collectivement, il n'existe pas d'autre voie que de faire porter la négociation sur l'effet global de tous les éléments du soutien quelle que soit leur nature, c'est-à-dire sur l'ensemble de la politique agricole de chaque pays tant exportateur qu'importateur.

Telles sont les thèses et telle est l'approche que la Communauté Economique Européenne a défendues à Genève lorsqu'il s'agissait de définir une base pour une négociation fructueuse sur les produits agricoles.

La méthode de négociation proposée par la Communauté pour traduire cette approche est celle dite du "montant de soutien" en tant que dénominateur commun à toutes les politiques agricoles. Le principal malentendu à ce sujet a été et reste encore d'avoir confondu les bases et la logique des thèses de la Communauté avec la méthode proposée comme formule de négociation. En proposant de voir dans la différence entre le prix mondial et le prix interne la résultante des effets des politiques agricoles et de retenir cet élément comme objet de la négociation, la Communauté avait la conviction de toucher au coeur du problème. Mais, nous voulons le répéter encore une fois, ce n'est pas la méthode qui importe, mais la philosophie qui l'inspire et qui reste l'élément nouveau et important, à savoir la nécessité de faire porter la négociation sur l'ensemble des politiques agricoles. A cet égard, il est encourageant de constater à des signes de plus en plus nombreux que la logique de cette position gagne de plus en plus d'adeptes.

Existe-t-il réellement une possibilité de réduire substantiellement les obstacles au commerce dans ce domaine ? Pour pouvoir répondre à cette question il faut ne pas oublier que pour les pays d'Europe c'est le maintien d'un prix raisonnable pour les agriculteurs qui est à la base de chaque politique agricole. Cela signifie que tout assouplissement doit aboutir à réduire la distance entre les prix du marché mondial et le prix intérieur. D'autre part, si l'on considère qu'aucun pays européen n'est disposé à sacrifier à bref délai une partie de son agriculture, ni à réduire la rémunération déjà considérée comme trop faible de ses agriculteurs, il apparaît clairement dans quelles limites étroites une action reste possible.

C'est la raison pour laquelle la Communauté a proposé d'avancer par étape sur ce terrain délicat. Un pas très important serait déjà accompli si on acceptait de consolider la situation actuelle c'est-à-dire, en d'autres termes, si l'on acceptait de faire de la politique agricole une responsabilité commune en admettant qu'elle ne peut être modifiée sans en avoir au préalable discuté avec les partenaires. Sur cette base et au moyen d'une concertation permanente il serait peut-être possible de s'acheminer progressivement vers une meilleure libéralisation.

Que la Communauté soit prête à s'engager dans cette voie est clairement démontré par le fait qu'elle voit dans la restructuration de son agriculture le problème le plus important pour l'avenir de telle sorte qu'une adaptation graduelle du niveau des prix devienne possible, condition première de tout assouplissement des mesures de soutien.

On serait facilement tenté de pousser plus loin l'analyse de ces problèmes importants et fascinants. Je ne céderai cependant pas à cette tentation estimant que les quelques idées que je viens d'esquisser indiquent déjà suffisamment les thèmes essentiels des discussions qui peuvent et doivent s'engager dans les années à venir.

#### Le commerce des pays en voie de développement

Ce thème apparaît de plus en plus à l'avant-scène de toutes les discussions sur la politique commerciale. Ceci est parfaitement normal et justifié. Le problème de fond pour l'avenir ne doit pas être celui de savoir comment structurer les relations de politique commerciale entre les pays industrialisés (bien qu'il ne faille cependant pas perdre cet aspect de vue) mais comment introduire les pays moins développés dans le système des échanges mondiaux et leur assurer une part équitable de ceux-ci. C'est là un problème très important non seulement en termes économiques, mais également en termes politiques et de relations humaines.

On peut considérer qu'il est désormais pratiquement reconnu de façon générale que le problème n'est pas "aid or trade", mais "aid and trade".

A mon avis, le coeur du problème consiste en ce que les pays moins développés ont besoin de développer leur activité économique et doivent pour cela pouvoir disposer de recettes en devises tandis que leurs immenses marchés intérieurs ne sont pas encore suffisamment développés pour jouer leur rôle de consommateurs.

Ici de nouveau il faut résister à la tentation d'analyser ce problème en détail et se limiter aux aspects immédiats de la politique commerciale. Tout progrès dans la libéralisation des échanges mondiaux offre nécessairement également des possibilités accrues de commerce pour les pays en voie de développement. Mais la grande question que posent les pays sous-développés est celle de savoir si cela en soi est suffisant pour leur permettre de tirer tout le profit potentiellement contenu dans cette évolution.

La revendication de l'octroi de conditions privilégiées, c'est-à-dire la création de préférences, devient de plus en plus pressante tant au GATT qu'à l'OECD et plus encore à l'UNCTAD dont il constituera le thème central de la deuxième Conférence qui s'ouvrira prochainement à New-Delhi.

Il semble exister une tendance assez nette pour répondre positivement à cette demande à condition que cette brèche dans la règle de la nation la plus favorisée soit réellement utile et aide à résoudre au moins partiellement le problème dans l'équilibre et l'équité en garantissant à tous les intéressés les mêmes chances et les mêmes possibilités.

Dans ce contexte se pose immédiatement une question : faut-il appliquer de telles préférences d'une manière générale ou d'autres termes, est ce que ces préférences seront instaurées pour tous les produits et notamment sans distinction pour tous les pays en voie de développement ou faut-il introduire une méthode qui permette une certaine sélection tant en ce qui concerne les produits que les pays qui en bénéficieront ?

Cette question entraînera sans doute encore beaucoup de discussions et la réponse dépendra probablement plus de facteurs politiques que de facteurs économiques.

Pour cette raison nous nous limitons ici simplement à signaler la question.

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Statement by Raúl C. Migone,  
Representative in Europe  
of the Organization of American States.  
(Tilburg, December 14-16, 1967)

I am honored and delighted to have been invited to participate in your international Colloquium on Atlantic Relations. This is because of the opportunity it would have given me to be in contact with such eminent colleagues, to discuss problems of the greatest economic and political importance and timeliness, and to find myself again in a country for which I have great admiration and sympathy. I thank the officials of the Kennedy Institute for their kind invitation, which, very unfortunately, I am unable to accept due to circumstances beyond my control. I am grateful also for the working papers that have been sent me; I found them of the highest technical and conceptual quality.

The Kennedy Round has been one of the most successful and important manifestations of the international cooperation in the postwar period. Valuable both for its spirit and its results, it is even more important for the perspectives it opens at the service of a community of industrial countries desirous to tighten the bonds that already unite them in the field of international trade.

It may well be, however, that the political importance of the Kennedy Round exceeds its economic impact, at a time when the two are increasingly bound up together. This is indeed a factor of dynamism and promise for the future development of the international community.

The impact of economic on political relations is even more obvious and direct when it takes place between countries that operate on distinct economic levels, such as between developed and developing countries, that is, between North and South.

These North-South, or vertical, relationships were, until a few years ago, strictly bilateral or country to country. They are now acquiring more and more an international dimension. This became apparent in GATT, with its Chapter IV, and more and more in the UNCTAD.

In that context, I should like to formulate a few comments and to give some information on Latin America and the Organization of American States.

It was perhaps Latin America that first became conscious of a need for coordination among developing countries to better face the problems of the North-South relationship. At the beginning of 1964, at the initiative of Argentina, an important coordinating meeting of Latin American countries took place at Alta Gracia. There, common economic and political criteria and common objectives and methods were hammered out, for use at the First Conference on Trade and Development. In many ways, it was that common position and, perhaps, the moderating influence of Latin American delegations, that made it possible for 75, later 77, developing countries to harmonize their aspirations and helped powerfully to prevent a breakdown of the Conference, which would have meant a dangerous and unnecessary defeat for the Western World, of which Latin America is a full-fledged member.

This should not suggest that UNCTAD is a substitute for GATT in North-South relationship. UNCTAD's contribution is in the

airing of new, at times more radical, principles of trade and development, and the creating of a conscience and will, among both developed and developing countries, of the need for a transformation of international trade structures, largely for the benefit of developing countries.

GATT, for its part, has become less of a rich countries' club in recent years or months, as many developing countries and a few Eastern European countries have now subscribed to the General Agreement, partly as a result of Chapter IV and the creation, at Brazil's initiative, of the very useful International Trade Center. While GATT's increased prestige is due in part to the success of the Kennedy Round, some credit can go to a better understanding by developing countries of the benefits of its pragmatic case-by-case approach and to a growing realization that GATT is the one forum where industrial countries can, through bargaining, be made to grant specific concessions.

Thus, some division of labor is emerging between the two institutions. UNCTAD symbolizes the North-South division, gives it a means of expression and functions as a powerful lever for the betterment of trade conditions of developing countries. In contrast, GATT appears destined to translate this dynamic view of tomorrow's world into new formulations, new services, and more liberal access for specific products of developing countries.

The Latin American countries share a reasonably common view of economic development; as members of the United Nations, all participate in UNCTAD, while only ten are members of GATT : Argentina, Brazil, Chile, Cuba, the Dominican Republic, Haiti, Nicaragua, Peru and Uruguay, to which must now be added Trinidad and Tobago, a new member of the Organization of American States.

In fact, Latin America has not limited its efforts to world forums. It has also made considerable progress at the Inter-American level, that is, in the Organization of American States. Thus, after long and arduous negotiations, the Latin American countries and the United States finally adopted two basic texts in the field of trade and development. One is now an integral part of the new Charter of the Organization of American States, adopted in Buenos Aires in February of this year. The other is the Declaration of the Presidents of America, formulated at Punta del Este, Uruguay, last April.

The new Charter of the OAS enshrines very progressive principles of trade among the American countries, which show a fine balance between lofty objectives and the ways and means of attaining them. Two months later, the Declaration of the Presidents included chapters whose titles are significant : "Latin America will create a common market", "We will join in efforts to increase substantially Latin American foreign-trade earnings".

As for Latin America's ambitious program of economic integration, I will limit myself to sketch only a few of its principal traits.

First, its objective : the Latin American Common Market is, for many of our countries, a necessary precondition for economic take-off from underdevelopment; in this it differs from the European Common Market, organized by already industrialized countries to increase further their power and prosperity.

Second, the Latin American Common Market has had to recognize the existence of three levels of development among Latin American countries, including a category of relatively less developed

countries and even one of "insufficiently" developed countries.

Third, overall economic integration is proving so difficult a task, for a variety of geographical, economic and structural reasons, that it is having to take place also in parallel fashion in several subgroups : in addition to the original Central American Common Market (CACM) and Latin American Free Trade Area (LAFTA), two regional groups have been formed, one principally by Pacific Coast countries (Chile, Colombia, Ecuador, Peru and Venezuela) and the other, the River Plata Basin group, revived after a quarter of a century, by Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Fourth, while recognizing that foreign trade can be an important motor of progress, the Latin American countries are also making a truly major effort to mobilize their domestic economic and financial resources, both nationally and on the regional basis, with the help of the Inter-American Committee of the Alliance for Progress (CIAP) and the financing of U.S., international and inter-American agencies, among them the Inter-American Development Bank, and increasingly, with some financial assistance from Europe.

Finally, the economic integration effort of Latin America has the solemn and official support of the United States.

But there is more. Recently, Latin America has become more conscious of the need for closer ties with Western Europe. In late September, the Consultative Assembly of the Council of Europe adopted a recommendation that Western Europe establish closer bonds with Latin American countries, individually and

as a group, with the Organization of American States and with each of the abovementioned Latin American regional groups.

To conclude, I should like to suggest that any further liberalization of trade, such as would take place under a second Kennedy Round, could consider giving special attention to Latin America for the following reasons : first of all because, in a broad sense, it is itself a part of the Atlantic region. Second, because as a developing region, it has attractive characteristics : of all developing regions it is closest to economic take-off; it constitutes a cultural unit; and in its efforts to develop its economies, it has already acquired significant institutional experience as well as a certain maturity and capacity for collective action.

Such factors suggest that, as industrial countries develop the economic and political strategy that the developing countries increasingly require of them, they may find in Latin America an area where aid and cooperation will yield great, rapid and lasting benefits.

REUNION ORGANISEE PAR LE J.F. KENNEDY INSTITUTE A L'UNIVERSITE  
DE TILBURG DU 14 AU 16 DECEMBRE 1967.

1 La conférence consacrée aux relations atlantiques après  
2 la négociation Kennedy a travaillé sur la base de rapports  
3 évaluant les méthodes et les résultats de la négociation menée  
4 au GATT et suggérant des formules diverses pour l'avenir.

5 Répartie en 3 groupes de discussion elle s'est concentrée  
6 sur 5 thèmes principaux.

7 I. Les techniques des négociations pour les tarifs ou les  
8 obstacles non-tarifaires.

9 II. l'agriculture.

10 III. Les pays en développement.

11 IV. les pays socialistes.

12 V. le cadre institutionnel.

13 On trouvera ci-dessous un résumé très succinct des principales  
14 idées énoncées:

15 I. Les techniques de négociation.

16 Le principe de la réduction linéaire a constitué un progrès  
17 majeur. A la limite, elle élimine les considérations de récipro-  
18 cité. En tout cas, la réciprocité est appréciée en termes d'avantages  
19 globaux, plus que de volumes des ventes affectées par les réductions  
20 de droits. Le succès a été dû à l'élimination des tarifs inutilement  
21 gonflés. Il reste encore de la marge pour certaines méthodes auto-  
22 matiques, mais on risque que les exceptions deviennent plus nom-  
23 breuses que l'application des règles.

24 Deux tâches essentielles seraient à accomplir: l'une sur la  
25 structure des tarifs, d'autant plus protecteurs qu'ils sont plus

différenciés; l'autre sur les critères qui justifieraient des exceptions, notamment pour le développement d'industries nouvelles derrière une protection limitée dans le temps.

Commencer maintenant permettrait d'entretenir le mouvement et de prévenir un retour offensif du protectionisme, mais on ne peut aujourd'hui évaluer l'effet de réductions de droits et qui s'étaleront sur 5 ans.

Des progrès peuvent être accomplis sur un bon nombre de secteurs, mais ils iront de pair avec la définition de politiques industrielles dans ces domaines, et il faut traiter plusieurs secteurs à la fois pour assurer économiquement des avantages compensés.

Faut-il traiter immédiatement les obstacles non-tarifaires ?

Il n'y a pas de méthode systématique pour des choses aussi diverses que les achats gouvernementaux, les secrets de la défense, les pratiques restrictives, la complication des spécifications nationales qui rompent l'unité du marché et empêchent la production de masse.

A mesure que les échanges sont plus libres, il devient plus nécessaire d'établir des règles de concurrence, de discuter en commun des programmes de rétablissement de l'équilibre dans les balances de paiements, les politiques de stabilisation et de croissance. Il ne s'agit pas d'aller jusqu'aux exigences d'une communauté économique, mais les conditions qui feront des échanges plus libres une contribution décisive à la croissance dépassent la simple réduction tarifaire.

## II. l'agriculture.

La portée très limitée des accords en matière agricole s'explique par les difficultés particulières de ce secteur, aussi bien que par les différences d'approche: la communauté économique s'intéressait aux politiques internes, les pays exportateurs à l'accès aux marchés. On en vient à regretter que l'idée de consolider les montants de soutien ait été écartée: elle considérerait le problème global, et même si elle n'abolissait pas les protections, elle réduisait ou écartait la liberté de les renforcer.

1 La difficulté majeure tient à ce que les marchés sont limités;  
 2 les techniques employées pour soutenir le revenu agricole sont  
 3 coûteuses pour les budgets ou pour les consommateurs ou pour les  
 4 deux, et notamment le soutien des prix comprime la demande.

5 Une vraie politique agricole comporte une vue des besoins  
 6 mondiaux, l'élargissement des marchés ne peut se faire que  
 7 par des méthodes renouvelée d'aide alimentaire, et la décision  
 8 de produire pour les besoins et non d'avoir des surplus accidentels  
 9 dus aux déséquilibres des prix. Il faut aussi une décision sur  
 10 le rythme de diminution de l'emploi agricole, et sur les méthodes  
 11 appropriée pour faciliter la reconversion.

12 L'UNCTAD ou la FAO, où les pays consommateurs sont représentés,  
 13 constitueraient un cadre approprié pour élaborer ces politiques  
 14 en commun.

### 15 III. Les pays en développement.

16 La situation particulière de ces pays a été pleinement reconnue  
 17 par l'UNCTAD et l'idée de non-réciprocité a été acceptée dans la  
 18 négociation KENNEDY. Toutefois, ces pays n'ont obtenu que des  
 19 résultats décevants, faute d'avoir su choisir entre le plein  
 20 bénéfice de la clause de la nation la plus favorisée et la reven-  
 21 dication de préférences et aussi parce que l'absence de réciprocité  
 22 limitait les concessions que les pays industrialisés étaient  
 23 prêts à faire.

24 Les préférences généralisées sont vues avec scepticisme: elle  
 25 risquent de jouer sur les produits qui n'intéressent pas les pays  
 26 en développement; elles pourraient au moins être offertes là où  
 27 les pays industrialisés ont un déficit.

28 Elles soulèvent le problème des pays les moins avancés, qui  
 29 a été reconnu dans la réunion d'Alger ou dans l'association  
 30 latino-américaine de libre-commerce, mais une discrimination est  
 31 difficile à administrer. Les produits peuvent être trop chers,  
 32 malgré les préférences, pour concurrencer les producteurs natio-  
 33 naux des pays importateurs; dans d'autres cas, ils sont au con-  
 34 traire très compétitifs, mais loin que les pays industrialisés  
 35 accordent de préférences là où ils sont eux-mêmes vulnérables,

ils limitent les baisses de droits dans l'application de la clause de la nation la plus favorisée.

Un plan d'action plus efficace appellerait une application honnête des baisses de droits pour favoriser l'accès au marché des produits les plus compétitifs; une révision de la structure des tarifs pour abaisser la protection sur les demi-produits où elle est très élevée par rapport à la valeur ajoutée des préférences réciproques et des groupements régionaux entre pays sous-développés, qui pour devenir compétitifs doivent accepter que leur protection soit décroissante, le droit de subventionner les exportations nouvelles entaxant les importations ou les exportations traditionnelles.

Ainsi la politique commerciale cesserait de contredire l'aide au développement; mais elle doit être concertée entre les pays industrialisés pour diluer l'impact, et étalée dans le temps pour permettre un réemploi plus productif.

#### IV. Les pays socialistes.

Entre l'est et l'ouest, et notamment en Europe, le commerce s'est moins développé que la production.

La Tchécoslovaquie, membre originaire du GATT, mais dont la situation a été modifiée après 1948, n'a pas tiré d'avantage substantiel de la négociation KENNEDY. La Pologne, qui vient d'accéder au GATT, a obtenu une solution pragmatique, où elle paie par un accroissement prévu de 7 % par an de ses importations en provenance de l'Ouest l'élimination progressive des restrictions quantitatives à son encontre. Cette formule ne peut cependant constituer le modèle d'une solution générale.

Si le régime de propriété ou le principe du plan n'empêchent pas les échanges, en revanche les modalités de planification ou les modes de fixation des prix peuvent constituer un obstacle au commerce. La transformation des prix pour tenir compte de la demande et des coûts et pour accepter la concurrence est inégalement avancée dans les différents pays socialistes et exige des ajustements difficiles.

L'ancien système de prix constituait tout aussi bien une

difficulté pour les échanges entre les pays de l'Est eux-mêmes. S'ils sont prêts à un commerce multilatéral avec les pays de l'ouest, le multilatéralisme dans l'autre sens suppose que les transformations des systèmes des prix aient avancé à un point comparable dans tous les pays de l'est.

Tant que les décisions d'importation restent relativement centralisés à l'est, les pays de l'ouest savent mal au nom de quel critère les achats sont acceptés ou refusés.

Tant que les pays de l'est craignent des embargos, ils restent prêts à payer entr'eux des prix plus élevés ou discriminatoires.

Ils ne se sentent pas en mesure de prendre des engagements fermes d'aide ou d'importation à l'égard des pays en développement.

Enfin la situation politique arrête toutes les mesures législatives aux Etats-Unis malgré l'intérêt qui s'y manifeste pour un accroissement des relations commerciales avec l'est.

#### V. Le cadre institutionnel.

Si l'existence de la CEE a provoqué la négociation KENNEDY, si son pouvoir de négociation a dégelé des positions tarifaires américaines qui résistaient depuis 20 ans, si elle a amené certains de ses membres à un abaissement massif de ce qu'était auparavant leur protection, elle a en revanche alourdi, par la lourdeur de sa procédure interne, la procédure au GATT.

Pour les nouvelles tâches à accomplir, le GATT apparaît trop étroit, par la limitation du nombre des pays socialistes qui y figurent et dont le cas se règle par des exceptions à ses principes, inadapté pour les pays en développement, pour lesquels il faut définir une stratégie de croissance, polarisée sur un seul aspect pour les pays industrialisés de l'ouest eux-mêmes sans pouvoir traiter des problèmes de politique économique et monétaire désormais inséparables de la libération des échanges.

L'OCDE a une compétence large mais reste un club des pays atlantiques.

L'UNCTAD comprend plus de pays que le GATT, et notamment le Mexique ou le Vénézuéla mais surtout l'Union Soviétique,

1 est un cadre plus favorable aux pays en développement, mais ne  
2 peut sanctionner aucune obligation, alors que le GATT dispose  
3 de moyens de décision. A la longue la coexistence des deux insti-  
4 tutions ne paraîtrait pas tenable.

5 Dans les relations atlantiques, la position qui sera reconnue  
6 à la Grande-Bretagne, son admission ou son rejet par la Communauté  
7 Economique est décisive: tout est bloqué par cette incertitude.

8 Une zone de libre-échange atlantique serait une relance dans  
10 la voie du libre-échange mais, risquant d'arrêter les progrès  
11 britanniques dans les industries de pointe, elle compromettrait  
12 la marche européenne vers l'unité et discriminerait à la fois  
13 contre le marché commun et contre les pays en développement.

14 Le Conseil de l'Atlantique Nord vient au contraire de sousentendre  
15 l'idée du partnership en appelant l'Europe à se grouper pour  
16 accroître son influence dans l'alliance.