THE MULTILATERAL TRADE NEGOTIATIONS
IN THE PRESENT ECONOMIC SITUATION

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It may well seem paradoxical that ninety countries should choose the present time to engage at the GATT headquarters in Geneva in very wide-ranging trade negotiations, taking as their aim to reduce all kinds of trade barriers and to improve the international framework for the conduct of world trade.

On the face of it, the governments concerned could hardly have selected a less favourable moment for their enterprise. You, the business community of Basle, working at one of the great crossroads of international trade, need no reminder that world industry and commerce are today gripped by major difficulties.

The Bretton Woods monetary system has broken down, and has been replaced by rapid and wide fluctuations in exchange rates. Prices of raw materials and other primary commodities have been equally unstable. Supplies of several basic materials for industry and agriculture have been interrupted or restricted, sometimes with little warning. Economic recession has struck almost all the industrialized nations simultaneously, and has led to unemployment and factory closures. The less-developed countries are seeing their own already-serious problems further complicated by the shrinkage of their export markets, by the reversal of the commodity boom, and - in many cases - by sharply higher fuel and fertilizer prices. At the same time, inflation is still raging in many countries, not sparing even those whose currencies had until recent years been of traditional stability.
Why should countries accounting for nine-tenths of world trade persist in these trade negotiations, at a time when their economies, their businesses, their workers, are exposed to such grave difficulties? To answer this question, one must consider first why the negotiations were undertaken, and what governments are trying to achieve through them.

I. The origins of the negotiations

The present trade negotiations, sometimes called the Tokyo Round, were launched in that city in September 1973 by a Ministerial declaration, unanimously adopted by representatives of over 100 governments.

Nevertheless, the genesis of the negotiations lies somewhat further back in time.

As long ago as 1967, when the Kennedy Round was concluded, it was obvious that although those negotiations had accomplished much, even more remained to be done. Tariffs on industrial products had been reduced substantially, but not in all sectors. Little had been achieved for agricultural products, and almost no impact had been made on the non-tariff obstacles increasingly recognized to be as serious a problem as tariffs. Developing countries felt, moreover, that the negotiations had paid little attention to their particular problems.

At that time, no country was ready to launch fresh negotiations. But it was agreed to set in motion a programme of research and discussion to identify and clarify the matters on which negotiations might later take place.

Meanwhile, during the final years of the 1960's, world trade continued to expand at a record pace, demonstrating, once again, that reducing trade barriers does have an effect. However, the climate of international trade relations was deteriorating. In mid-1971 the situation came to a head. The United States Government made dramatic moves both on the monetary side, by suspending the gold convertibility of the dollar, and through a trade policy measure, an import surcharge.

It was logical that these unilateral emergency actions each evoked a multilateral response. On the monetary side, the response was first a realignment of parties; then, pending a monetary reform, floating exchange rates, whose consequences for Switzerland's trade and national economy you know all too well. In the field of trade, the multilateral response took the form of declarations, in February 1972, by the United States, the European Communities and Japan, calling for far-reaching negotiations, in order to counter the worsening situation by a new trade liberalization effort.
What prompted this initiative, and persuaded a further very large number of developed and developing countries to join in the negotiations?

Each individual participating country has its own national objectives. Nevertheless, I see the negotiations as having attracted such broad support for two principal reasons.

The first was the need to adapt the framework and the conditions of world trade to the changing economic relations among the industrialized powers. These countries had experienced varied economic fortunes in the previous decade. Most saw their balance-of-payments situation transformed, in some cases for better, in others, for worse. The development of the European Economic Community and of Japan was increasingly influencing trade flows and affecting their positions as trade partners of the United States. Furthermore, a number of specific problems had irritated international trade relations.

A second major reason for engaging in negotiations was the need for effective measures to assist the trade of developing countries. I intend to return to this subject later. But I would underline now that a large majority of the participants in the Tokyo Round are developing countries, and that they finally decided to take part only after obtaining assurance that high priority and special rules should apply to negotiations on matters of particular interest to them.

Such were, in broad outline, the origins of the negotiations. They are now, after some frustrating delays, and occasional alarms, actually taking place.

They are taking place in full awareness of the difficulties that have arisen since 1973. The participants share the profound conviction that these negotiations are now more necessary than ever in order to help to overcome present difficulties and, in the medium term, to prepare a basis on which all who depend on trade can do so more profitably.

Before examining whether this view is justified, I should explain what the negotiations cover.

II. The coverage of the negotiations

The substantive discussions began three months ago, in mid-February.

It is therefore too early to indicate any results. What I can provide at this stage, however, is a survey of the line-up - a sort of stock-taking - as the negotiators get down to work.
The Tokyo Declaration calls for the negotiations to focus on six specific areas. These are: tariffs, non-tariff measures, possible co-ordinated action in particular product sectors, agriculture, tropical products, and safeguards. In each of these six areas, negotiating groups are now at work, under the general guidance of a Trade Negotiations Committee on which all the ninety participating governments are represented.

**Tariff negotiations**

The first negotiating group is thus charged with what has always been the traditional task of GATT: to conduct negotiations on tariffs.

It is sometimes suggested that tariffs are now so low as to be of no further importance. This is not true. Successive rounds of GATT negotiations have indeed whittled them away considerably. Nevertheless, some tariffs are still significant.

GATT calculations suggest that, on the basis of the most realistic assessment possible, the nominal most-favoured-nation tariffs of the eleven major industrialized markets still average about 8 per cent. This is not a negligible level. Moreover, the average figure conceals much higher figures for a few particular countries, and for many products and groups of products. Product examples are textiles, for which the eleven-country average is around 15 per cent, and - to take examples of special interest to your Chamber - colouring materials and medical and pharmaceutical products, which average about 12 and 11 per cent respectively. The fact that raw materials generally bear very low duties, while semi-finished and finished products are subject to higher tariffs, also indicates continuing effective protection for processing industries far above the nominal rates.

It may be objected that quite a large proportion of world imports now moves across frontiers at less than the most-favoured-nation rates, and often even at zero rates, because for instance the goods are being traded between members of the EEC or EFTA. However, this objection ignores the situation of those countries whose exports do not benefit from the preferential rates. For these countries, the preferences can represent a trading handicap that they will be eager to alleviate, perhaps in exchange for interesting reductions in their own tariffs.

Past experience suggests that the tariff negotiations will have two major phases, both of which may well go forward at the same time.
The first is already in progress: a search for an agreed "tariff negotiating plan of as general application as possible". Some countries would prefer a formula that would provide for an across-the-board or linear tariff cut by a single percentage figure, such as the 50 per cent target adopted for the Kennedy Round. Others prefer a so-called "harmonization" approach, which would apply differing percentage reductions according to the initial tariff level, with the aim of bringing closer together the tariffs charged by the major industrialized countries on the same product. There is room for compromise between the two approaches; certain participating governments have already put forward specific proposals to this effect. The tariff plan will also fix, for instance, the time-table for the tariff reductions.

The second phase will be the bargaining over the precise application of the general formula. Which products will a participant be allowed to except from the automatic application of the formula? For which products can he be persuaded to offer greater reductions than would result from the agreed formula?

This bargaining over specific exceptions to the general rule will eventually define the shape and content of the final tariff reduction package.

Countries need not necessarily all make equal contributions to the final package. Even among the industrialized countries, the rule is only that there shall be reciprocity over the multilateral trade negotiations as a whole. Overall balance may be achieved with one country giving more on tariffs, while another makes greater concessions on non-tariff measures.

Non-tariff measures

This brings me to the second major area of the negotiations. The whole range of non-tariff measures that distort trade, either by placing barriers in the way of imports or by unfairly stimulating exports, is open to the participants.

Anyone engaged in international business today well understands the practical significance of non-tariff measures. As you know, they are extraordinarily varied in their form, their purpose and their effect. It is no longer true, as it once was, that the extent of the non-tariff measure problem is unknown. Although there are still some obscure corners, much is now known about these measures, and great thought has been given to the question of how one can negotiate to reduce their trade-distorting effects.

In preparing for the negotiations, an inventory has been made of the many hundreds of notified instances of non-tariff distortions of trade. Eleven categories, which have been grouped into four "families", have been selected to be taken up from the beginning of the negotiations.
A good example of what is now happening is given by the negotiating group which is dealing with quantitative restrictions and import licensing procedures. In the case of import licensing, the negotiators have before them a draft code of conduct that was drawn up by experts some years ago. If accepted, it should go far to ensure that licensing procedures do not unduly hamper trade. However, at this stage a large part of the work is being concentrated on quantitative restrictions, which are still among the most numerous, and most directly limiting, non-tariff measures affecting trade. Detailed consultations are now taking place on specific restrictions between the governments which impose them, and governments which have notified a direct trade interest in them.

Subsidies and countervailing duties have also been taken up. These two questions are linked, since countervailing duties by one country are a response to what it considers to be export subsidies by another.

A third group of non-tariff measures already under negotiation comprises technical barriers to trade: standards, packaging and labelling requirements, and marks of origin. Priority is being given to negotiations on an existing draft code of conduct, prepared over the last three years, on the application of standards, which are the subject of more notifications than any other type of non-tariff measure except quantitative restrictions.

Finally, negotiations are also in progress on a number of customs procedures: initially on customs valuation, where again a draft code of conduct exists, and with import documentation, including consular formalities, customs nomenclature, and customs procedures also scheduled for attention.

As regards what we term the sector approach, a number of participants believe that for certain product sectors, the best results are likely to be achieved if negotiations focus simultaneously on all the tariffs and non-tariff measures affecting the sector. For this reason, the possibilities of the sector approach as a complementary negotiating technique are being studied.

The sectoral technique is of special interest to countries, both developed and developing, which at present earn most of their export income through the sale of raw materials. They often complain that other countries willingly buy their raw materials, but maintain both tariff and non-tariff obstacles against semi-finished and finished goods, thus protecting their own processing industries and discouraging the industrialization of the exporting countries. As yet, there is no agreement as to the specific role of the sector approach in the negotiations. But it has been agreed, in order to assess the practical implications of the approach, to bring together data on trade, tariffs, non-tariff measures, production and consumption for one major sector, that of ores and metal products.
Agricultural negotiations

The negotiations on agriculture will be crucial to the success of the Tokyo Round.

In almost every country, there are few areas of national policy more difficult than that of agriculture. Its complications spill over national frontiers, and bedevil international trade relations. For many years, agricultural trade has been the area of international commerce in which the normal rules that govern trade in other products have been almost inoperative. Past negotiations to open up agricultural markets have produced meagre results, to the great detriment of agricultural exporters who are denied the benefits to which they feel entitled by their natural comparative advantages in this area.

Recent developments have changed the situation somewhat. Agricultural negotiations have almost always taken place against a background of chronic surplus in supplies. Because governments have wished to protect the incomes of their farmers, they have been reluctant to admit more imports to their domestic markets already burdened with surpluses, and they have subsidized exports. But for the time being, at least, the situation has changed. For some products, the situation is now one of shortage.

As before, the long-term objective of the negotiations in this area must be to restore order to agricultural trade and to agricultural production policies. This will still require that the negotiators seek ways of reducing barriers to imports. But it will also require a common search for agreement on policies and actions to encourage production and build up stocks, so as to ensure sufficient food for all the peoples of the world, even in years when the harvests fail.

As a first step, negotiations will concentrate on three product areas which account, together, for a large share of world trade in agricultural goods. Discussions on grains have already begun; those on dairy products and on meat (including live animals) will get under way this month.

No doubt, the negotiations on agricultural trade are of prime concern to countries with a major stake in this trade, either as exporters or as importers. But they matter to everyone, because it is accepted that, in the words of the Tokyo Declaration, "the negotiations shall be considered as one undertaking, the various elements of which shall move forward together". In other words, the chances of a successful final outcome for negotiations on industrial products are closely bound up with success on the agricultural side.

MORE
The developing countries in the negotiations

I come now to the position of the developing countries, which account for over two-thirds of the governments represented in these negotiations.

One of the most striking features of the Tokyo Declaration is its repeated stress on the trade needs of these countries, on the priority to be given, wherever possible, to action on the issues that most interest them, and on the special and more favourable treatment to be granted to them where this is feasible. The Tokyo Declaration, echoing the General Agreement on Tariffs and Trade, also states that they are not expected, in the negotiations as a whole, to make contributions inconsistent with their individual development, financial and trade needs. These considerations apply to every aspect of the negotiations.

The fact that commitments of this kind have been made has, in my view, a double significance. In the first place, it bears witness to a considerable evolution in international opinion. It is now more or less universally recognized that developing countries must be given better - indeed, whenever possible, particularly favourable - opportunities to enlarge their export earnings. And secondly, in subscribing to the Tokyo Declaration, governments of the industrialized nations have assumed substantial obligations. They have promised a determined attack on the most serious obstacles facing exports by the developing countries, and they will come under heavy moral and political pressure to carry that action through to a successful conclusion. I would add that I believe that it is in their own economic and political self-interest to do so.

One sector of the negotiations, that of tropical products, is of such obvious and vital concern to the developing countries that it has been given special and priority status. Basic guidelines for negotiations on tropical products have already been agreed. Participant developing countries or groups of countries were invited to submit lists of specific requests for trade concessions on tropical products to other participants in whose markets they have an interest. Consultations on these lists have already begun.

Developing countries are very active also in the other areas of the negotiations.
In the case of tariffs, for example, I have already mentioned the problem of tariff escalation, which discourages the establishment and growth of their processing industries. They also have another major interest: to preserve and improve upon the advantages they now derive from the schemes of generalized preferences operated in their favour by the industrialized countries. Where such preferences exist, the developing countries will perceive some of the reductions in the most-favoured-nation tariff on the products concerned as an erosion of their margin of preferences: to compensate that loss, they will be requesting other concessions from the industrialized countries.

To give another example, this time in the field of non-tariff measures, developing countries have been quick to point out that their exports are among those most affected by existing quantitative restrictions, and have asked for preferential treatment in the removal of these restrictions.

Finally, let me note that it is in the interest of certain developing countries which are already partially industrialized, that they should search carefully for those areas where it is to the long-run advantage of their own economic growth to lower their barriers to imports.

The negotiations as a whole offer an exceptional opportunity for both the developed and the developing countries themselves to promote the economic advancement of the Third World.

The safeguard clause and trade liberalization

The negotiations are not exclusively concerned with bargaining over trade obstacles. The Tokyo Declaration also provides for consideration of "improvements in the international framework for the conduct of world trade which might be desirable in the light of progress in the negotiations". It is too early to know which of the ground-rules of trade, as embodied in the General Agreement on Tariffs and Trade, will as a result be re-examined. In one case, however, that of the safeguard provisions of GATT, the re-examination has already begun.

The General Agreement includes several safeguard provisions, including those Articles which govern the imposition of import restrictions for balance-of-payments purposes. The chief focus of interest at present, however, is Article XIX, which under certain conditions allows imports to be restricted when they cause or threaten serious damage to an industry.

At this stage of negotiations, two tendencies are already evident. Some governments believe that broad trade liberalization will be easier to carry forward if importing countries know that effective safeguard measures will be
available if particular sectors of their industry run into serious trouble. Other countries are reluctant to change the present rules, fearing that this would encourage greater recourse to safeguard action, and lead to a widespread reimposition of trade barriers. Within this group, developing countries are particularly concerned that any new safeguard rules should be so formulated as to cause the minimum hindrance to their exports.

Negotiations on safeguards are expected to move forward in two phases, which will to some extent overlap. The first, now in progress, is a review of how safeguards have been used in recent years. The second will seek to identify any inadequacies in the system, and consider possible improvements. One improvement, already being widely advocated, might be to introduce multilateral surveillance of any safeguard actions, taking as model the surveillance provisions of the Arrangement on Textiles which has been in operation in GATT for eighteen months now.

Before leaving this review of the subject-matter of the negotiations, I should touch on the sensitive topic of access to supplies.

One can well understand the burning interest of commodity consuming and utilizing countries in this question, after their experiences of the past two years. They are not likely, however, to evoke an equivalent interest on the part of producers unless they offer something in return. The key to successful negotiation is a mutual interest in getting results. It is to be expected, therefore, that in the context of the Tokyo Round, the seeking of assurances concerning access to commodity supplies on the part of consuming countries will be linked quite naturally with the grant of concessions by those same consuming countries on access to their own markets for raw materials or processed products from producing countries. This could even lead to arrangements designed to secure greater stability in trade and prices for the products concerned.

III. The justification and objectives of the negotiations

Taken as a whole, the multilateral trade negotiations add up to a very large enterprise. It is fair to ask whether in the present economic situation, they still justify the effort. For my part, I am convinced that they are not only worthwhile, but more necessary than ever.

First of all, in the short run, the negotiations are needed to prevent erosion of the gains achieved in the post-war era of trade liberalization. One need only think back to the sorry state of world trade and trade relations in the 1930's to realize how much is at risk. One need only read the world press to gauge the pressures currently being exerted on governments to restrict or subsidize trade to help this or that embattled domestic industry.
Judged in the light of the present economic difficulties, the trade policy record of most countries over the past two years has been good. A few countries have been constrained by severe balance-of-payments difficulties to impose general trade restrictions, and some others have acted to limit imports of particular products. To date they have remained very much in the minority. There is nevertheless a very real risk of a return to protectionism, and every effort must be made to ward it off.

One means of buttressing the resolve of governments to continue, in their mutual interest, to follow liberal trade policies is for them to subscribe to explicit pledges not to resort to restrictions. In this context, the renewal of the OECD pledge against trade restrictions is very welcome. Another means, less explicit but also effective, is to engage in negotiations aimed at trade liberalization. Past and current experience are convincing on this point: a government which is trying to bring about the reduction of trade barriers maintained by other governments knows that it will weaken its own bargaining position if it itself resorts to trade restrictions or subsidies. In other words, the fact that the multilateral trade negotiations are taking place substantially reinforces the ability of governments to resist protectionist pressures.

The negotiations, however, are more than just a temporary deterrent against backsliding in international trade policy. It is convenient, of course, that they play this important role in the present situation. Their lasting effect, however, will be seen only in the medium or longer-term.

That is an essential characteristic of major trade negotiations and it explains why the Tokyo Round has begun, in spite of present economic difficulties. The practical results of the negotiations will not be put into effect during the present economic recession unless this lasts longer than now appears likely and longer than would be tolerable. The earliest time at which agreements reached with respect to the reduction of tariffs and other protective barriers could be in force would be two or three years from now. Some tariff-cutting schedules could stretch into the mid-1980's. The economic tide should therefore have turned decisively before the Tokyo Round exposes domestic industries to fresh pressures from external competition.

What kind of contribution can the present negotiations make, then, to a healthier trading climate and a healthier economic situation in coming years?
I have already touched on the fundamental considerations that led to the launching of the negotiations in September 1973. They included trade tensions among the industrialized nations, and the urgent need to help the developing countries. These problems remain; and the negotiations can still help to solve them. Other matters, however, now also preoccupy the trading nations. Chief among them are economic recession, inflation, and the international adjustment process. The multilateral trade negotiations can also help to combat these three major difficulties.

First, the negotiations offer a means to resist tendencies to recession, by encouraging the expansion of world trade.

The past quarter-century has been one of unparalleled growth in trade. There have clearly been many reasons for this growth, and it would be unjustified to give too much credit to trade liberalization. Nevertheless, liberalization, both on a regional basis and world-wide through GATT negotiations, has played a large part. The impetus provided by past efforts is now exhausted, or nearly so: the process of tariff-dismantlement within Western Europe is almost complete; the final Kennedy Round tariff reductions took effect more than three years ago. Industries everywhere are feeling the painful effects of the deceleration in world trade. International trade has become one of the motors of economic growth. If the negotiations can contribute to restoring that motor to full-power operation, they will be helping to avoid a relapse into another recession of the kind we are experiencing today.

Second, freer trade as a result of the Tokyo Round will contribute to easing inflationary pressures.

The elimination or reduction of trade barriers will give producers and suppliers increased possibilities for exploiting their competitive advantages, and will likewise allow consumers and users to supply themselves according to the best possible conditions as to price and quality. In other words, the prime objective of the negotiations is to promote a more rational international division of economic activity by making available to consumers increasing quantities of products on increasingly favourable terms. Thus the Tokyo Round is a means of fighting inflation.

Third, the negotiations can help to smooth the international adjustment process by making world trade more fluid.

In part this can be achieved by the classic means of reducing trade barriers. When external markets are opened up, businesses and countries can earn a better living in the world by exporting the products for which they are competitive; on the other hand, they are discouraged from maintaining artificially industries
which are not viable. The resulting better utilization of production and trade reduces the risk of economic imbalance, at least from the trade point of view. The international adjustment process can also be assisted through improvements in the rules of trade. On this point, the strengthening of international surveillance in the application of safeguard clauses deserves special mention. Improvements of this kind will mean that countries will be better placed to face the kind of economic crises that in the past have driven many of them to apply emergency restrictive measures.

In conclusion and to sum up, the multilateral trade negotiations can, in the short term, guard against a return to protectionism. In the medium term, when their results are felt, they will serve to promote a new expansion of world trade. That is why, in spite of present economic difficulties, 90 countries, accounting for 90 per cent of world trade, have resolutely engaged upon them.