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GENERAL AGREEMENT ON TARIFFS AND TRADE

"THE POSSIBLE IMPACT OF THE EUROPEAN ECONOMIC COMMUNITY, IN PARTICULAR THE COMMON MARKET, ON WORLD TRADE"

New GATT Trade Intelligence Paper Published

The GATT Secretariat has made public Trade Intelligence Paper No. 6,* entitled "The possible impact of the European Economic Community, in particular the Common Market, upon World Trade".

Part I of this study discusses the decisive importance of the uninterrupted prosperity of Western Europe, in general, and the Six countries, in particular, for the maintenance of a high level of international trade. It shows that the Six countries have played a leading part in Western Europe’s post-war prosperity; "it follows that any conclusions which recent experience may suggest as to the importance of favourable business conditions in Western Europe to the world economy at large are not only ascribable to those countries, but may also be applied to them in forseeing the future". (p. 5)

The Paper next examines the importance of Western Europe and the Six countries as export markets for the primary producing countries. The Paper shows that "the maintenance of prosperity and continued economic growth in Western Europe is a matter of key importance to the world economy at large and, in particular, to the non-industrial areas which depend so heavily on the proceeds of their exports". Further, "it is clear that continued prosperity in the Six countries is of decisive significance to the world economy as a whole. To the extent that the Common Market will actually speed up the rate of economic progress in the Six countries and, if only to that extent, the average rate in Western Europe, it would clearly make an important contribution to the well-being of other parts of the world as well", (p.8)

* Trade Intelligence Paper No. 6, mimeographed, 64 pages, is available, free of charge, on application to the GATT Secretariat, Villa le Bocage, Palais des Nations, Geneva. English and French versions available.

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Referring to the effect of preference or discrimination in periods of rising and falling trade values respectively, the paper states that however probable such an effect may be in the long run, i.e. once the Common Market will have been completed, it remains nevertheless true that, throughout the duration of the transitional period - the next twelve to fifteen years - the establishment of the Common Market necessarily involves the granting of privileged treatment to some trading partners to the detriment of others. In this connexion, the events of recent years indicate that such arrangements do not necessarily result in serious diversions of trade. The diversionary effect of such arrangements upon the channels of trade is strongest during periods of declining activity or falling prices and values, but is smaller, even negligible, during periods of continued buoyancy in business conditions. (p.8)

After examining several recent examples of discriminatory arrangements the paper comes to the conclusion that although the prospective effects of the Common Market upon individual commodities and countries differ, of course, widely, it may nevertheless be thought that, in general, the Common Market is likely to be beneficial for world trade, and the adverse effects of inevitable discrimination during the transitional period kept to a minimum if it can be reasonably assumed that the Common Market, during that period and after, will positively contribute to maintain and even to accelerate an uninterrupted growth of production in the Six countries as a whole.

In Part II the paper discusses the possible repercussions of the creation of a Common Market among the Six countries upon the trade in manufactures and primary products. The first part of this study examines the present (or recent) trade position and then explores, as far as possible, the prospects for the future. The second part is confined to primary products; so far as manufactured goods are concerned, the study is limited to a brief consideration of the influence which the European Coal and Steel Community has had on trade in steel products.

The paper shows that the Six countries are, first of all, predominantly exporters of manufactures - mainly to each other and the Rest of Western Europe, but also to North America as well as to the non-industrial areas. Among the latter, their overseas territories and the overseas sterling area, and especially the "Rest of the World" are their most important markets.

In addition, the Six countries are importers of primary products, of which they trade heavily (to a value as high as 75 per cent of their intra-trade in manufactures) amongst themselves. Although the bulk of their imports of such products comes from the non-industrial areas, their imports from the Rest of Western Europe, which are of the same order of magnitude as those from North America, are by no means negligible. (p.17)
Turning to trade in primary products, the Paper examines, first the situation regarding food imports into the Six. The most important supplying area comprises the overseas territories (including Algeria and the French overseas departments). Together, they account for more than one-quarter of the total import of the Six from other countries (mainly on account of coffee, tea and cocoa, oilseeds, fats and oils, fruits and vegetables and cereals). North America, the next most important food supplier, furnishes mainly cereals and oilseeds, Latin America principally coffee and cereals, other Western Europe mainly meat, and the Rest of the World, fruits (Spain and Israel) and oilseeds. The overseas sterling area is of only minor significance. The food trade of the Six countries with each other consists mainly of meat and fruits (p. 22).

Regarding raw materials and fuels about one-third of the value of raw materials and fuels received from outside the Six countries is imported from the overseas sterling area - especially wool, rubber and petroleum. Main supplies from other Western Europe are wood and woodpulp, iron ore, textile fibres and non-ferrous metals; from North America, cotton, non-ferrous metals, steel scrap and coal; and from the overseas territories, non-ferrous metals. Latin America furnishes cotton and some petroleum, and the Rest of the World textile fibres and petroleum. In trade among the Six countries, coal, petroleum products, non-ferrous metals and textile fibres are the largest items (p. 25).

The Paper next attempts to estimate the effects of the Common Market upon the prospective import requirements of primary products in the Six countries.

The method used in the Paper to approach this problem is to estimate the prospective import requirements of the Six in the absence of a Common Market (pp. 26-33) followed by the making of an allowance for the possible influence of the Common Market. In these latter calculations special attention is given to two branches of activity, namely nuclear energy and agriculture. They have been singled out "not only because the production in the Common Market area is expected to be much larger in comparison with requirements in other cases, but also because these branches are more specifically likely to be affected by the very creation of the Common Market" (p. 34).

After setting out certain assumptions (p. 39) the Paper estimates that:

(a) the Common Market's net imports, in 1973-75, of fuels and raw materials would exceed the requirements as estimated for the Six countries in the absence of a Common Market by $50 million for each one-point increase in gross national product (additional to the 90 per cent increase in GNP previously assumed), it being understood, however, that the creation of Euratom would result in a reduction of fuel imports by about $700 million at a GNP level exceeding that of 1953-55 by 90 per cent. In other words,
the $700 million saving on fuel imports would be compensated by the effects of economic growth upon the requirements for imports of raw materials, if, as a result of the Common Market, the GNP reached in 1973-75 a level of 103 per cent instead of 90 per cent above the figure for 1953-55. (p.39)

(b) In respect of foodstuffs, the Common Market's net import requirements will essentially depend on the effect which the common agricultural policy, as set out in the Rome Treaty (Article 39), in conjunction with the acceleration of economic growth that is expected from the Common Market, would have upon the rate at which the agricultural labour force will have declined. It would, at a GNP level of, say, 220 per cent of 1953-55, require a decrease in the agricultural labour force by 18 per cent to maintain non-tropical food imports in 1973-75 at the same level as exports; by 22 per cent, to maintain net imports at the 1953-55 level; and by 25\frac{1}{2} per cent, to bring them to twice that volume.

A decline in the agricultural labour force of nearly 2 per cent per annum has been witnessed in the last fifteen years in the case of the United States. That decline is the more significant, as agricultural prices between 1935-39 and 1950-54 have risen about half again as fast as prices of other goods.

It may, therefore, not be unreasonable to suppose that a similar decrease in the agricultural labour force is within the realm of possibilities in the Common Market and that net imports of food (and not only of coffee, etc.) may also make a substantial contribution to the improvement in the export prospects of the Common Market's traditional suppliers. (p.40)

The Paper next examines in some detail the association of the overseas countries and territories with the Common Market. A comparison is made of the difference between the average import values for supplies of several important primary products from the overseas territories and other sources on the one hand, with the rates of duty which would constitute the preference granted to supplies from the territories after the transitional period, on the other hand. The Paper shows that imports from the territories are now on the whole more expensive than imports from other sources to a degree exceeding the tariff differential contemplated for tobacco, sugar, rubber and veneer. The cotton duty is to be nil, and the duty on roundwood is as yet undetermined. The preference in respect of bananas would roughly compensate for the high price level of supplies from the French overseas territories to Germany and from Somaliland to Italy, but would in other cases...
constitute a general inducement to expand production and trade. Finally, the preferential treatment with respect to coffee and cocoa would prima facie appear to be potentially the most effective, since it would apply to commodities which the territories are now in a position to supply on the whole more (and as regards coffee, even much more) cheaply than other suppliers.

It is apparent that coffee, cocoa and bananas are the only instances where, according to present import unit values, the tariff differentials which will eventually apply to products from the overseas territories and from other suppliers would constitute a net inducement to expand exports from the former sources. (p.42)

Finally, for the sake of comparison, the Paper analyzes briefly (1) the movements which have occurred in the United Kingdom's imports after the conclusion of the Ottawa agreement as regards Commonwealth and other sources, and (2) the long-term effects of preferences enjoyed by the French overseas territories in the French market. (pp.44-48)

At the conclusion of the Paper, Appendix A sets out the Sources and Methods used in estimating Prospective Import Requirements. Appendix B sets out the Relation between Input and Output in European and United States Agriculture, and estimated prospective Decrease in the Agricultural Labour Force on various Assumptions. Appendix C contains a Note on Export Duties and Export Subsidies in Associated Territories.