Agricultural issues discussed

Refunds on exports of Community sugar

The Council's attention largely focused on this question, which was the subject of considerable discussion. The Council had before it the report of a working party established by GATT's member states last November to examine with the European Community the possibility of limiting EEC subsidization of sugar exports. In presenting his report, the Chairman of the working party noted that members of the working party had expressed differing views as to the concrete results of the discussions.

Some delegations considered that the European Community had not provided sufficient assurances that the prejudice, or threat of prejudice—found to exist by the two panels set up to examine the Australian and Brazilian complaints—would be eliminated. In the view of these delegations, the Community had not advanced any meaningful possibility of limiting the subsidization and, consequently, the Community system would remain a source of uncertainty for the world sugar market and would continue to constitute a threat of prejudice.

The Community considered that it had fulfilled all its obligations under Article XVI:1 by participating in a thorough examination of its sugar export refund scheme; the scheme had recently been amended in respect of prices and quotas, and a new basic element had been introduced in that producers now had to bear the entire financial burden involved in export refunds.

The Council adopted the report of the working party and noted that Australia and Brazil were maintaining their complaints; it took note of the Community's intention to notify its new sugar regulations to GATT as soon as they had been adopted, and likewise the intervention price for 1981-1982.

The Council decided to meet again to examine the situation as soon as that information had been received.

US Agricultural Adjustment Act

The Council examined the 23rd annual report by the United States Government on action under Section 22 of the 1935 Agricultural Adjustment Act.

It asked the US authorities to furnish additional information for a more detailed examination of this action.

Other matters

The Council decided that a working party on Accession of Greece to the European Community should examine the relevance of variable levies on Community imports of agricultural products in terms of Article XXIV of GATT regarding customs unions and free-trade areas.

In addition, the Council had before it two regional co-operation agreements; it decided to examine at its next meeting the South Pacific Regional Trade and Economic Agreement, and, following usual practice, it established a working party to examine the second ACP-EEC Convention of Lomé, which entered into force on 1 January 1981.

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1 Under Article XVI:1 of GATT, all subsidies must be notified. If it is determined that serious prejudice to the interests of another member state is being caused or threatened by a subsidy, the party granting the subsidy must discuss the possibility of limiting it.

2 Section 22 empowers the President of the United States to regulate, in certain cases and subject to certain conditions, imports of commodities covered by price support or stabilization programmes.
Present prospects are not very encouraging and there is still a danger of worsening protectionist trends, GATT economists report.¹

1. Trade slow-down

World merchandise trade totalled nearly $2000 billion in 1980. In dollar terms the increase over the preceding year was about one fifth. On a year-to-year basis the volume gain reached 1 per cent, as against 6 per cent in 1979. This pronounced slowing down in the volume growth of world trade in 1980 reflected largely the movement of petroleum which declined by about 10 per cent in 1980. Excluding petroleum, the volume of world trade expanded by 4 per cent in 1980. In the past quarter century, economic activity in respect of both output and trade has recorded lower growth rates in only two years—1958 and 1975.

Record deficit for industrial countries

The industrial countries showed a record $80 billion current account deficit, but this figure conceals contrasting developments. The United States had a surplus of $5 billion, while Japan recorded a deficit exceeding $10 billion and the EEC deficit expanded strongly to a new peak of $50 billion.

Petroleum surpluses and deficits in developing countries

The oil-exporting developing countries recorded an increase by about two-thirds in their current account surplus (to $115 billion); on the other hand, the deficit of oil importing developing countries increased sharply to an estimated $50 billion.

Trade in manufactures between industrial and developing countries

Trade in manufactures between industrial and developing countries yielded a surplus in favour of the former, reaching approximately $82 billion with the oil-exporting developing countries and $85 billion with those that are oil importers.

The latter have increased their share in both imports and exports of manufactures by industrial countries, while trade between industrial countries has been less active.

2. Current policy issues as seen by GATT’s economists

The problems which made last year’s economic performance the third worst in three decades continue to dominate the world economy.

Western Europe has not yet begun to recover from the recession, while current data from the United States put in question the continuation of the modest recovery which started in the third quarter of 1980.

At the beginning of 1981 world trade is running at a level somewhat below the average for 1980 as a whole.

The repercussions of these and other adverse developments continue to affect the rest of the world, in particular, the oil-importing developing countries whose current account positions are under simultaneous pressure from increased interest charges on their international debt, depressed demand in the industrial countries, and recent capital market developments.

Inflation and unemployment

According to most economists, progress in reducing inflation can be, at best, only very slow.

Indeed, it seems impossible to get from very high inflation to price stability without some recession and thus a temporary increase in unemployment. Opinions differ, however, as to the factors that determine the unemployment level in a disinflation process.

Recession and adjustment

In the current economic situation, the concern with adjustment in the import-competing industries alone appears too narrowly focussed. The need for adjustment in contemporary economies is much more widespread and can be clearly seen at three levels:

- at the level of financial structures:
  At the present time the banking sector is giving rise to concerns of various kinds, particularly as regards its structural balance. To these internal strains must be added the adverse effects on bank assets and corporate balance sheets of uncertainty emanating from the international context.

- at the level of international payments balances:
  The main present concern is whether the oil-importing developing countries can obtain sufficient foreign exchange to maintain their current import levels as well as to service their large foreign debt.

- at the level of industrial production structures:
  Protection of certain activities, the productivity of which is precarious in industrial countries, lowers the prospects of more promising national industries. Thus, none of them can really generate the investment momentum needed to overcome the forces of stagnation.

Detrimental interaction

These three maladjustments can interact with adverse effects.

If a government increases trade barriers, it will aggravate the financial imbalance of the banking sector through the impact of that action on the profitability of export-oriented firms, thus increasing their risks of default. If other countries retaliate against the protective action, the adverse effect on exports on both sides is correspondingly magnified.

The situation is the same if a government grants subsidies, loans or loan guarantees; any action which diverts funds to uncompetitive firms is equivalent to an action designed to restrict the flow of investment funds to efficient firms. The result is that the financial viability of the efficient firms,
as well as their ability to expand productive capacity and employment, is reduced.

Two main conclusions can be drawn from this review:

1. One must take a general view of the entire problem. Hitherto, most corrective policies have been designed to cope with only one of the maladjustments, with the result that they have often aggravated imbalances in the other two areas.

2. Industrial adjustment should not be seen as a burden, but as an income-creating activity which, if allowed to proceed, will gather momentum and eventually lift the economy into a new upswing.

The present economic climate

In the medium term, there is a reliable basis for economic growth; in the short run, adjustment must be allowed to proceed in all areas where it is necessary, while at the same time convincing progress is needed against inflation. Improvements will occur simultaneously on both fronts or not at all.

The current international economic climate nevertheless gives cause for concern. Protectionist pressures remain intense and are concentrated on four large sectors of world trade (textiles and clothing, synthetic fibres, steel and automobiles); they could become still more pronounced. These pressures have created a climate of apprehension in which investment decisions are increasingly difficult to make.

A particularly ominous development has been the increasing pre-occupation, on the part of both governments and the media, with bilateral trade deficits. In a multilateral trade system, only overall balances should matter.

The main danger at present is that the misplaced concern with bilateral balancing of payments will provide an additional argument for those demanding protection, and that efforts in this direction will lead to a decline in world trade in general.

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Focus on...

The Anti-Dumping Code

GATT’s Anti-Dumping Code, which was revised during the Tokyo Round, is being further developed.

Dumping, subsidies, unfair trade practices... The public is more or less familiar with these terms, indicative of some kind of tension in the market-place, but does not always know just what activities they cover.

To give its readers the background information needed to understand better the complexity of today's trade problems, GATT FOCUS intends to publish a series of articles on various sectors of GATT's work. This month, we talk about the revised Anti-Dumping Code.

What is dumping?

GATT's Article VI, which deals with both anti-dumping measures and countervailing duties, defines dumping as the process by which “products of one country are introduced into the commerce of another country at less than the normal value of the products.”

Dumping is done by an enterprise, while subsidization, which often produces the same effect, results from government action. Both distort the normal rules of competition.

Dumping is to be condemned, however, only if “it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry”.

A new version of the Anti-Dumping Code

During the Tokyo Round, it was found necessary to harmonize the provisions of the Anti-Dumping Code. which had been in force for more than ten years, with corresponding provisions of the Code on Subsidies and Countervailing Duties.

What is more, in order to ease the participation of developing countries in the revised Code, it was agreed that in the application of the Code consideration would be given to their special situation.

The revised Code aims at more uniform application of its rules and clarifies points which had caused difficulties in the past. It consequently redlines determination of cause and effects as between dumping and the injury found to exist, clarifies the criterion of injury, and strengthens investigation procedures.

An active Committee

At present, twenty-seven countries including five developing countries have accepted the disciplines of the revised Anti-Dumping Code, which took effect on 1 January 1980.

In addition to its normal tasks connected with administration of the Code (examination of relevant domestic legislation submitted by the Code's signatories, semi-annual reports on decisions taken to combat dumping) the Committee on Anti-Dumping Practices has, jointly with the Committee on Subsidies and Countervailing Duties, established a group of experts to settle a technical question left pending during the Tokyo Round: that of defining the word “related” for the purposes of determining the existence of a relationship between exporters, importers and producers. This question is important for deciding whether there has been any injury.

The Anti-Dumping Committee adopted a decision recognizing that special economic conditions in developing countries affect prices in their home market and that those prices consequently do not provide a commercially realistic basis for determining normal value.

Developing countries may face difficulties in adapting their legislation to the requirements of the Code, including problems in carrying out anti-dumping investigations initiated by them. The Committee has accordingly made provision for granting them on a case-by-case basis and depending on conditions, time-limited exceptions, and for giving technical assistance relating to implementation of the Code.

In addition, at its meeting on 2-3 February 1981, the Committee held a thorough discussion on basic price systems; the purpose of these systems is normally to facilitate the introduction of anti-dumping duties when suppliers from several foreign countries are involved. The Committee developed a set of guidelines aimed at avoiding proliferation of such systems and subjecting them to greater discipline; a draft understanding on this subject has been communicated to governments for consideration.

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1 This review is taken from a GATT secretariat study recently published (GATT/1285) which will be updated in the annual report International Trade in 1980/1981 to be published towards the end of this year.

1 “Normal value” is generally taken to mean the price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country.
COMMITTEE ON TRADE AND DEVELOPMENT

The Committee on Trade and Development met on 24 March 1981. Its rôle had been strengthened by GATT's member states at the end of the Tokyo Round, and the Committee was meeting to discuss such issues as structural adjustment, trade problems of the least-developed countries, and work on trade liberalization in areas of special interest to developing countries.

GATT and structural adjustment

The Committee exchanged views on a report\(^1\) from a working party established by the GATT Council to elaborate specific proposals for the future work of GATT relating to structural adjustment and trade policy. The working party had reached unanimous conclusions, agreeing on the need for analysis and discussion of the relationship between developments in trade and changes in production structures with a view to understanding better the nature of the adjustment process, as well as for discussing the structural-adjustment experience in GATT's member countries.

The Committee examined the report of the working party from the point of view of the trade of developing countries.

These countries stressed the importance of the adjustment process for improving the access of their products to the markets of the developed countries, in keeping with Part IV of the General Agreement. Both developed and developing countries noted in particular that the report constituted an acceptable compromise for all the countries that had participated in the working party.

Trade of the least-developed countries

The Committee adopted a report from the sub-committee on trade of least-developed countries, which held its first meeting last November.

Trade liberalization

At the conclusion of the Tokyo Round, it was agreed to continue discussing possibilities for further liberalizing trade in certain areas of interest to developing countries; priority was given to tropical products, quantitative restrictions and other non-tariff measures, tariff escalation (the tendency for tariffs on semi-finished and finished products to be higher than on the raw materials on which they are based), and advance implementation of Tokyo Round tariff concessions.

These areas are now being considered by the Committee on Trade and Development. A series of studies is being made on the situation as regards commercial policy and trade flows for the principal tropical products, and four studies (bananas, coffee, cocoa and derived products, tea and instant tea) have been given to members of the Committee.

It was further agreed that the secretariat would supply information on quantitative restrictions affecting the trade of developing countries.

The Committee also had a preliminary exchange of views on tariff escalation and the identification of areas of interest to developing countries.

Consultative Group of Eighteen

Need for Renewed Political Commitment

At its meeting of 25–27 March, the Consultative Group of Eighteen\(^1\) examined the current economic situation, and its implications for trade policies. It noted that the international trade situation remained difficult and agreed that it was essential that the multilateral trading rules established under the GATT continue to be observed. The members of the Group stressed the need for renewed political commitment to continue to strengthen the multilateral trading system and reaffirmed their commitment to full implementation of the results of the multilateral trade negotiations. Particular attention was given to the trade problems of developing countries.

For the first time, the Group devoted a full day of its meeting to discussion of the international trading system as it relates to agricultural trade. The Group expressed satisfaction that a programme of work had been established on the possible rôle of GATT in the area of structural adjustment and trade policy.

\(^1\) The Consultative Group of Eighteen consists of high-level representatives with trade policy responsibilities in their countries.

Lastly, the Committee reviewed developments in international trade and implementation of Part IV of the General Agreement with respect to developing countries. Since the Tokyo Round, this regular review includes the operation of the “enabling clause”, which allows developed countries to give developing countries special and more favourable treatment, and permits developing countries to grant each other such treatment. A number of developed countries announced certain improvements and changes in their system of generalized preferences.

The GATT Council will act on the report in the light of the comments submitted by the Committee on Trade and Development and the Consultative Group of Eighteen.

Coming GATT Activities

Provisional programme of meetings in April:

6-7. Committee on Import Licensing.
9-10. Committee on Government Procurement.
15. Committee on Safeguards.
28. Working Group of Textiles Committee (Adjustment Measures).
29-30. Committee on Subsidies and Countervailing Measures.

\(^1\) Many GATT meetings are convened at short notice.

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