THE "DILLON" NEGOTIATIONS

After some considerable delay the negotiations for tariff reductions amongst the contracting parties to the General Agreement on Tariffs and Trade (usually referred to as the "Dillon" negotiations because the original suggestion for the negotiations was made by Mr. Douglas Dillon, Under Secretary of State in the Eisenhower Administration) will open in Geneva on 29 May. It is not surprising that the "compensation" negotiations between the EEC and the rest of the contracting parties should have been protracted and difficult. The establishment of the common tariff of the EEC resulted in adjustments in tariff rates on many thousands of products which had been "bound" in previous tariff negotiations under the GATT. This negotiation of these adjustments was an essential prerequisite for establishing a satisfactory and internationally acceptable basis for further negotiated tariff reduction on a world-wide basis. Even after these many arduous months of negotiations some countries still remain unsatisfied and consider that a fair balance of contractual rights has not yet been reached. It is to be hoped that most of these remaining difficulties will be overcome when the Dillon negotiations have been carried out and it will thus be possible to make a judgment on the results of the negotiations taken as a whole.

At this point, however, it is gratifying that a way has been cleared for the Dillon round to begin, because these negotiations are of exceptional importance for the future development of international trading relations. Whilst the aims and objectives of the EEC and of EFTA have in general met with sympathy and understanding from the rest of the GATT community, there has at the same time been a considerable degree of concern at the possible effects of these arrangements on the trade of other countries. For this reason there was general satisfaction at the prospect of negotiation at an early date which would have the effect of lowering the level of the common tariff of the EEC towards third countries, thus reducing the risk of diversion of trade as a consequence of the tariff discrimination inherent in a customs
union or free-trade area. The two countries of the North American continent are both most anxious to preserve and expand their access to the European market. Their prospects for doing so will depend very much on the level of the EEC common tariff and of the individual tariffs of the EFTA countries.

The overseas agricultural exporting countries - Argentina, Australia, Canada, New Zealand, the United States and Uruguay and others - have a vital stake in the European market and are themselves substantial importers of industrial products from Europe. Agricultural arrangements within the European groups which were highly restrictive and paid little or no attention to traditional channels of trade for food and agricultural products, could have a crippling effect on the development of harmonious and fruitful trading relations between Europe and the rest of the world. The producers of tropical products such as coffee, cocoa, tea, bananas, etc., feel grave concern about the tariff preferences accorded by the EEC to producers of these products in the former French and Belgian colonial territories in Africa. This has produced acute friction with other producing territories in Africa, and with producing countries in Latin America and Asia. All these are problems which the participating countries will hope to see mitigated in the course of these critical negotiations.

It may, therefore, be useful to elaborate on some aspects of these problems. The serious balance-of-payments problem in the United States - though in part due to internal factors - is nevertheless in large part attributable to the generous aid accorded by that country to the rest of the world. The United States intends to continue to pursue these generous policies, particularly towards the less-developed countries, and is therefore more conscious today than ever of the need to maintain and expand her export trade. For all their sympathy for close European political unity and economic co-operation the Americans must, however, be expected to press hard and consistently for liberal external trading policies in Europe. Even if this were not the pre-condition of the maintenance of liberal trade policies in the United States itself it would be short-sighted and ungracious of Europe at this juncture to turn a deaf ear to this American appeal. Thus, even if the United States brings rather less than usual to the bargaining table it
would appear common sense for the European countries to go as far as they can in the direction of tariff reduction, despite the limitations of United States negotiating powers at this particular time.

This question is no less urgent in Canada. This country, after a period of very rapid growth and expansion, is now encountering serious difficulties and relatively high unemployment. Many voices are raised in favour of abandoning the expansionist and liberal policies which Canada has so far followed. A feeling that Canada was being squeezed out of her European markets - so long closed or restricted by quotas - through high and discriminatory tariffs could easily tip the scales of decisions which are already precariously balanced.

The problem of access to the European market for agricultural and food products is undoubtedly the most difficult in these negotiations. It has already been responsible for the long delay in completing the "compensation" negotiations and it hangs like a cloud over the Dillon round. For the last fifteen years imports of agricultural products to Europe have been and continue to be severely limited by import restrictions. Nevertheless, there has been some trade and also a lingering hope that when balance-of-payments conditions permitted the liberalization of trade this would extend progressively to the agricultural sector. In that way the agricultural exporters had hoped that the tariff concessions which they negotiated in earlier GATT tariff conferences - and paid for by concessions in their own tariffs on industrial products - would begin at last to have some meaning. These hopes have not been fulfilled. On the contrary, the present indications are that the situation may get worse rather than better. The agricultural exporters feel that such indications as are available of the progress towards a common agricultural policy for the EEC point towards a system in which outside suppliers would have no competitive access to the European market on predictable terms and that their role would be limited to marginal suppliers of any deficit in Community supplies which may occur through crop failures and shortfalls in Community production. The indications at present are that for the staple agricultural products there will be no prospect of negotiation in the Dillon round. If this situation continues
it is difficult to see the basis for mutually satisfactory agreements between the EEC and other countries for which agricultural products form an important part of their export trade. The impasse here appears insurmountable. However, a great trading community like the EEC has always to seek for policies which must necessarily take full account of export interests which depend very largely upon import policies.

The interest of many less-developed countries in the tariff negotiations is centred upon the possibilities they hold out of mitigations of the damage they fear from the association of the overseas territories with the EEC. From a purely economic point of view - disregarding the admittedly difficult political factors - this does not appear to be a very intractable problem. Apart from tobacco and sugar the industrialized countries are not themselves producers of tropical foodstuffs and beverages, and the tariffs which at present exist on these products are either of a fiscal character (in which case there is certainly no occasion for discrimination in their application) or they are designed to assist and thus indirectly subsidize imports from particular suppliers. In view of the friction which arises from preferential tariff treatment there would be much to be said for considering less conventional methods of giving assistance to particular producers who have special problems.

Finally a major benefit which may emerge from the Dillon negotiations is a general lowering of tariff barriers between the EEC and EFTA. If this is achieved it will diminish the risk of disturbances of traditional patterns of trade in Europe and create a more favourable background against which to seek some longer-term accommodation between the two groups which appears to be increasingly desired on both sides.

From this review it clearly emerges that the stakes in these negotiations are high and the difficulties correspondingly great. If, however, the opportunity is seized, the 1960/61 GATT negotiations could pave the way to a progressive liberalization and expansion of world trade.