

**NEWS
OF THE**

URUGUAY ROUND

OF MULTILATERAL TRADE NEGOTIATIONS

NUR 048
17 May 1991

ARTHUR DUNKEL CALLS FOR NEW EFFORTS BY MAJOR TRADERS
TO SECURE PROGRESS IN ROUND

The following is the text of a speech delivered by Mr. Arthur Dunkel, Director-General of GATT, to a meeting of the European Atlantic Group in London on Wednesday 15 May.

Mr. Chairman, Your Excellencies, My Lords, Ladies and Gentlemen

I can think of few more distinguished or more appropriate groups for me to address at this stage of the Uruguay Round than the European Atlantic Group. For it is the European Community and its trading partner on the other side of the Atlantic which hold most of the keys to a successful conclusion of the negotiations.

Let us be in no doubt, the days of passing the buck all round the globe as a means of avoiding the crucial political challenges in trade policies are long gone. Certainly, there are some tough choices to be made in Tokyo, in Seoul, in Ottawa, in Brasilia, in Helsinki, in Berne and in many other capitals. But now the focus is clearly on Washington, Brussels and the other capitals of the European Community. The world's attention can neither be diverted nor avoided.

So whatever the title of my speech is formally, the real theme is a very simple one: responsibility. Like it or not, senior civil servants and ministers on both sides of the Atlantic now find themselves directly responsible for many of the economic, development and social prospects for most of the world's peoples in the coming decades. And not in some vague or academic sense - nobody is looking for a simple moral or political lead to be taken - but in terms of hard, practical, commercially meaningful policy options. I hesitate, in the House of Commons of all places, to employ the English expression "put your money where your mouth is". Nevertheless, that is just about what it amounts to, though I would take the further liberty of amending the expression by exchanging the word money for self-interest. The fact is that leaders in Europe and America have a self-interested responsibility for securing a worthwhile result in the Round which is not a contradiction of their wider responsibility but a complement to it.

For the Uruguay Round is about growth - growth in economic and social welfare. With large parts of Europe and North America experiencing a significant economic slow-down, if not recession, this should not be difficult to understand. Trade liberalization through the GATT helped secure high and stable economic growth and development throughout the Fifties and Sixties. The Uruguay Round has given the world another chance to lift itself into a more dynamic and sustainable era of growth. It would allow us to pursue goals of enhanced affluence in industrial countries, to bring the developing countries into the main-stream of international economic and trade relations, to facilitate the protection of the environment and to work towards the fulfillment of other human objectives. Even more important it would ensure the needed economic reinforcement to political reform in the new democracies.

And this brings me to the inevitable question. If it is all so self-evidently desirable and in the interests of everyone, why did the Ministerial meeting in Brussels end in such disappointment? The obvious answer is that the failure of governments to achieve the political breakthroughs needed to conclude these negotiations shows clearly how difficult the choices are that they pose. And, speaking as I am to a

MORE

European audience, I must immediately say that I do not only have agriculture in mind! The ambitious and comprehensive negotiating agenda of the Round is no accident. Only a balanced and substantial package of results on subjects ranging from market access, textiles, and strengthened rules to the new areas like services and intellectual property rights will satisfy all the participants. Despite all the difficulties, Brussels left intact - if not actually reinforced - the political consensus behind the Round and its ambitious objectives. What makes it even more challenging is that in this Round more than any other, national interests run across the traditional - but less and less relevant - North-South, East-West divide.

There is something else to be said about the Brussels meeting. The disappointment of December should not be allowed to obscure the success that the Round had already achieved. Take, for example, the "mid-term review", conducted in Montreal in late 1988, which led to significant institutional changes in GATT and to a package of market access concessions on tropical products which have already been implemented.

More important than that have been the many efforts by governments - especially in developing countries and in Eastern and Central Europe - to move ahead with autonomous trade liberalization measures in anticipation of the likely results of the Round. We have recently compiled a list of 45 countries which have taken such action - 30 of them developing nations including; Mexico, Central American countries, Peru, Morocco, Indonesia and the Philippines. The efforts of Poland, Hungary, Czechoslovakia and Romania to use their GATT membership as a means of establishing themselves firmly in the ranks of market-oriented economies while undertaking far-reaching and fundamental trade reform programmes have been made all the more viable in the context of a multilateral trade negotiation supporting a global movement towards freer competition. Are they now to be told it was all a confidence trick? They did what the big industrial powers wanted, yet are those same powers (the founders and greatest beneficiaries of the GATT system) too politically fragile to take even small steps towards much-needed reform themselves?

Even with respect to specific subjects on the negotiating agenda, the years since the Round was launched have not been wasted. We have on the table significant, though not sufficient, offers of market access concessions from many participants. We have the results of several rule-making negotiations which could make a valuable difference to the everyday experience of traders. We are at an advanced stage in framing a General Agreement on Trade in Services and have begun to evolve sectoral annexes to that Agreement and an initial package of commitments by participants. Of course, we also encountered some very fundamental difficulties relating to the services agreement, before and during Brussels, and they will have to be resolved. In another important area, we have a draft agreement on intellectual property not far from completion. Negotiations for returning the textiles and clothing sector to the normal - though strengthened - disciplines of GATT have advanced though difficult political decisions still, of course, remain. And, on agriculture; instead of talking about what we will negotiate, we have finally begun to negotiate.

MORE

The fact is that we are close to achieving the original, and very ambitious, negotiating objectives set by Brussels and Washington when the Round was launched. There is more to do. And, while this Round has been remarkable for its genuine multilateralism - with the active participation of many more governments than in any previous trade negotiation of this kind - it has fallen to Brussels and Washington to set the scene which will permit a concluding phase.

My remarks are certainly not intended to suggest any doubts about the commitment of the United States and the European Communities, at high political levels, to bring about a major result in the Uruguay Round. You would be wrong; I have every confidence that the political resolve is there. But political resolve is one thing, negotiation another. Whenever we attempt to translate political resolve into the nitty-gritty of negotiation, we appear to suffer from something akin to a dialogue of the deaf.

It is a problem peculiar to trade relations across the Atlantic. If the strategic military alliance is as strong as ever, trade relations are as bedevilled by accusations, self-righteousness, mutual misunderstanding and the inability to distinguish special-interest pleading from the general public good as seems possible.

Both sides appear to believe they are speaking from positions of rectitude in matters of each others trade policies. It is only recently that there has been a neutral commentator on the scene to make any kind of assessment. With due modesty, I have to tell you that it is the GATT. The GATT Council, in implementing one of the early results of the Uruguay Round, now conducts periodic reviews of the trade policies of each of the GATT contracting parties. It is an absorbing and revealing process - not least for the governments concerned. As of a few weeks ago, we have reports on both the United States and the European Communities. So what do they say?

The United States was reviewed in late 1989 - one of the first three countries to be covered by the new system. As well as being the world's largest exporting nation (merchandise and services trade taken together) it is also the biggest market for many of its trading partners. It has generally low tariffs - though some high duties remain in sensitive industries like textiles - and most of its tariff is bound. Apart from agriculture and textiles it has few quantitative restrictions although it has resorted to the use of discriminatory bilateral restrictions - voluntary restraint arrangements - in many instances. It also makes relatively little use of subsidies, with the massive exception of those in the farm sector.

At the same time, the system of US trade law and regulation was found to be highly complex and not always transparent - leaving an environment of uncertainty and ambiguity for traders and their legal advisors to deal with. Its long-lasting import restrictions under the special waiver for United States' agriculture policy were widely criticised, as was what was seen as an excessive use of anti-dumping and countervailing remedies based

MORE

on unilateral interpretation of multilateral rules. The possibility, in US trade law, of using unilateral trade restrictions - or the threat of them - as a means of opening other markets was strongly condemned. The danger of undermining the non-discriminatory mfn principle of GATT through unilateral, bilateral or regional initiatives was a source of concern.

What about the European Community? That review took place just a few weeks ago. Naturally, the huge importance of the EC as a market was emphasised as was the potential impact of a successful conclusion to the internal market programme - despite some misgivings on very specific aspects of the 1992 process. The Community maintains generally very low tariffs and most of those tariffs are bound.

It may surprise you to learn, however, that there was also criticism!!! The system of trade policy and regulation was regarded as complex with some lack of transparency especially with respect to national measures. The Common Agricultural Policy, with its excessive market access restraints and high subsidies, commanded little admiration - to say the least. Concern was expressed at the number of anti-dumping actions pursued by the Community and the methods used for calculating anti-dumping margins; at the unpredictable use of rules of origin and at the operation of industrial and other state aids. Particular criticism was aimed at the frequent recourse by the Community to bilateral voluntary export restraint arrangements. While the benefits of regional economic integration were well accepted, questions were asked about the nature and impact on trade of the Community's complex hierarchy of preferential agreements.

Of course, I have greatly simplified the large amount of data and discussion involved in these reviews. However, the simple point is that there is a remarkable similarity in the balance of praise and criticism handed out in each case. Have it as you will: either the US and the EC are paragons of open trade virtues with just the occasional lapses from the straight and narrow, or they are both rough players whose good points are largely obscured by their frequent reversions to foul play. Whatever the case, there is not much to choose between them. So trade policies and rhetoric which are founded on the idea that one side is all white and the other all black are bound to be both futile and counter-productive. And that goes for agriculture as much as for any other sector. It really is quite a sterile procedure for the major trading nations to throw figures backwards and forwards as if merely winning the numbers argument somehow supplies an answer to the real challenges of the Uruguay Round.

Of course, it is easy enough for an international civil servant to preach without direct responsibility. For one thing, the political processes involved in bringing about substantial reform in the EC and the US are, indeed, fraught with complication and difficulty. For the EC, there is the pain of securing some kind of consensus among 12 powerful member states - whose ministers must pay attention to national political interests - before even being able to start serious negotiations in Geneva. On the US side, it is the scrutiny and direct responsibility of Congress for trade law that brings the headaches for the Administration in its efforts to negotiate within a multilateral system.

MORE

So both sides are working under pressure. That is not to criticize either system - they are democratic processes. Those processes are sometimes reinforced, sometimes damaged, by the efforts of narrow, special interest groups to influence decision making. At least, in the United States one can argue that there is a very broad range of vocal special interests which can be balanced against each other. In the European Community, one sector seems to outweigh all others, and many times over. Quite why the voices of the most competitive manufacturing sectors, the efficient services industries, the users of over-protected industrial inputs, the consumers - not least the consumers - and so on, have failed to make themselves properly heard is something of a mystery to me. Maybe there is still a tendency here to believe that the domestic market - by which we now mean the entire Community - is perfectly adequate to ensure lasting commercial success. If so, it strikes me as a rather worrying lack of foresight and enterprise.

The real problem with all this is that while the political risks for European governments and in the United States are being carefully and endlessly weighed and assessed the rest of the world is having to sit on its hands and watch potential economic benefits slip away. The Uruguay Round is the round of new and future opportunity - but businesses, farmers, consumers, economic reformers everywhere are being deprived of the opportunities. How long do they have to wait? How long before they can make medium- and long-term decisions in an environment of certainty about the future? Let me take some very practical examples.

For instance, how is a textiles manufacturer in the Community to take account of the future of the Multifibre Arrangement in his long-term planning? He can make a reasonable guess that, if the Uruguay Round succeeds, in around ten years time the sector will be operating within the normal rules of GATT. But how will the transition take place? He is already adjusting to the evolution of the internal market, but what would a more liberalised environment for world trade in textiles mean for the market niches he has already identified in Europe? Should his medium/long-term plans involve a change of emphasis? How should he see the future of outward processing and the possible expansion of markets in the developing countries? And what does all that mean for investment and jobs? In short, how does he make rational decisions for the future when one of the biggest features of the trading environment is completely uncertain?

And the clothing manufacturer in South East Asia? He may or may not have been enjoying the guaranteed access to industrial markets that the MFA permits. But for the future, does he assume the status quo; or does he begin to plan for a re-orientation in commercial activity - a new concentration on the largely un-met demand in his own domestic market and an effort to secure markets in other developing countries? Again, it means decisions on machines, people, premises, cloth, designs and so on. Lead times for a major re-direction of this kind could be long - but, for the moment, there is no basis for making such a decision.

Let us look at the other end of the scale and consider a manufacturer of high-tech domestic electronics products. It can be a manufacturer in

the Community or one in the Far East - the uncertainty will be the same. For instance, will his business continue to be affected by voluntary export restraint arrangements? Will he be looking at significantly lower tariffs in some markets and will they be bound? How will rules of origin affect him; for instance, as a target for anti-dumping action? If he plans to move some production to new locations overseas, what kind of investment regulation can he expect? Can he get the services back-up that he needs; in the telecommunications field, for instance? As of now, he knows none of the answers.

Think about pharmaceuticals production and trade. Will companies in this sector experience new competition, lower tariffs and enhanced patent protection? The answers are all part of the Uruguay Round.

In agriculture, what really is the European farmer supposed to expect from the future? Yes, it is politically sensitive. But is it really a kindness to pretend that the sector can just go on as before - few farmers believe that. At the present time, they can see no further ahead than the present price fixing round, let alone the long-term investment implications of CAP reform and the Uruguay Round.

The New Zealand dairy farmers are in an even more perilous state. Around 90 per cent of their products are exported and account for 20 per cent of New Zealand's total export income. But they do not know if their existing access to the Community can be assured. They do not know if market access in the United States will improve. They do not know whether or not there will be a winding back of export subsidies which will give them, as unsubsidized producers, a much-needed opportunity to enter many new markets worldwide. With all that uncertainty about the fundamentals of their commercial prospects how do they make investment decisions now about herd sizes, milk processing facilities and promotional expenditure - both in New Zealand itself and overseas?

It is not very different for the Argentine beef producers whose herds have been cut back almost continuously over 20 years and with almost half a million tonnes of capacity lost in just 10 years. Apart from the future of the hilton beef quota in the Community, they do not know if agreement in the Uruguay Round on sanitary controls will allow Argentinian production to be regarded as part of the foot-and-mouth free area and, therefore, whether they can begin to exploit the vast markets of the United States, Japan and South East Asia. If they are to do so, then long-term planning of cattle herd development - which moves in cycles of 6 to 10 years - should be starting soon, if not now. I do not think I need to rehearse to this audience the enormous economic impact that decisions of this kind can have on countries like Argentina and the efforts of the financial community to ease their debt burdens .

Finally, services. I do not know how many companies have yet begun to input a General Agreement on Trade in Services into their long-term strategic planning. However, if the agreement turns out to be something along the lines we expect then they may need to soon. If, over time - and with inevitable exceptions - principles and rules on market access, the

MORE

right of establishment, movement of personnel, the application of most-favoured nation treatment and others begin to be implemented in a multilateral context then the world will look different. Marketing and investment decisions for companies operating in the banking, insurance, telecommunications, transport and audio-visual sectors - among others - will involve new considerations and new opportunities.

I have only given you a few examples of the impact of the current uncertainty over the final course of the Uruguay Round. There are many other such cases both among the Community's trading partners as well as among business enterprises within the EC. Are we going to be able to help them?

For most of this year we have been engaged in consultations on each of the negotiating areas of the Round, but at a largely technical level. These consultations have been useful, not least in the areas of agriculture and services, and have provided information on national positions which will assist us greatly when we are able to get back into more substantial negotiation. To prepare for that we have also recently agreed a new structure of negotiation - seven groups will cover everything - and a number of new chairmen. We are, therefore, completely prepared for a final phase of negotiation. Indeed, I would assure you that everyone in Geneva, and many in capitals, are extremely anxious to start and start soon. I see no reason why we should not make some significant progress, at both technical and political levels, before the Summer

However, it is no secret that many participants in the Round see two pre-conditions for a serious restart to substantive negotiations. They should get an answer to the first in the coming days - when the US Congress makes clear whether or not the Administration has a definitive negotiating authority, the so-called "fast track". I am one of those who believes that the Administration will, indeed, get this authority. This will mean the spotlight will switch back to Brussels. Participants will then be looking for a signal that the Community can negotiate authoritatively, responsibly and comprehensively on all subjects including agriculture.

How long will it all take? Be assured that if it is humanly possible to conclude the Round this year, it will be concluded. Certainly, the GATT Secretariat is ready to exercise its responsibilities, to provide ideas and texts and to facilitate the work of the negotiators. However, agreements cannot be imposed and they cannot be dragged out of thin air.

It comes back to a matter of political responsibility. All participating governments have a responsibility to themselves and to the rest of the world. But Washington, Brussels and the EC member states have to take the first steps and break the log-jam. I have no doubt that in the coming weeks they will be talking bilaterally and, at a national level, seeking the developments in their negotiating positions that are so badly needed.

Thank you for listening. I hope you will work with us to ensure that responsibility is accepted and acted upon. Certainly you will have no regrets - on the contrary - when this great exercise in multilateral economic cooperation finally succeeds, as it surely must.

END