International trade policy

In 1973 and 1974 major negotiations took place under GATT Article XXIV (6), for compensation due to third parties, following the unbinding of UK tariff items consequent upon adoption of the EEC's common Customs tariff and common agricultural policy. With most of the negotiations under this head brought to a conclusion by the middle of 1974,* and new arrangements for international trade in textiles having entered into force at the beginning of that year, the way was almost clear for another "round" of bargaining for a global liberalization of international trade under GATT. The formal inauguration of the current round, marked by a Ministerial Declaration, had already taken place in Tokyo in September 1973, but its substantive engagement had been repeatedly stalled by delays to passage by Congress of the Trade Bill giving the US Administration the necessary powers, both in this matter and over implementation of the US scheme of generalized preferences. As part of the adaptation to new circumstances called for by enlargement of the EEC, the individual schemes of generalized preferences of the new members were assimilated into a single scheme for the group as a whole, with effect from the beginning of 1974, and further developments were proposed for 1975.

The countries negotiating with the EEC under GATT Article XXIV (6) were: Australia, Canada, India, Malaysia, New Zealand and Sri Lanka, from within the Commonwealth, as well as Argentina, Brazil, Chile, Japan, Pakistan, Poland, Romania, South Africa, the United States, Uruguay and Yugoslavia. Commonwealth countries listed in Protocol 22 to the Act of Accession (of Britain to the EEC) had no basis for taking part in the GATT XXIV (6) negotiations, since they were covered, until the beginning of 1975, by the standstill provisions of that Act. Several other Commonwealth countries requested that the loss of their preferential trade links with Britain should be taken into account, but the EEC only admitted a right to compensation for certain bound duties in the preferential schedules concerning Australia and Canada. In the case of developing Commonwealth countries, as indeed of other developing countries in general, the EEC scheme of generalized preferences, and improvements to it, made it easier to conclude the GATT XXIV (6) negotiations. Some of the more important concessions to Asian Commonwealth countries in 1974 were: (i) a special tariff quota at a concessional rate for Virginia flue-cured tobacco (of considerable importance for Indian exports to Britain); (ii) special arrangements for plywood (of particular importance to Malaysia and Singapore); (iii) the inclusion of jute and coir manufactures in the Community's GSP, and continued duty-free entry of these products from India and Bangladesh into Britain; (iv) a tariff quota at a

* Canada, India and Malaysia failed to agree, and Australia and the United States qualified their agreement with a rider about wheat, which would fall to be dealt with in the agricultural part of the GATT multilateral trade negotiations.

concessional rate for certain forms of canned pineapple (a valuable concession for Malaysia and Singapore); and (v) conditional inclusion of coconut oil in the Community's GSP (of benefit to Sri Lanka and other countries). *

As indicated above, important changes have occurred in international arrangements regarding trade in textiles. Negotiations in GATT on a comprehensive multi-fibre arrangement to regulate international trade in textiles culminated in the entry into force at the beginning of 1974 of the Arrangement regarding International Trade in Textiles (ITA), replacing the Long-Term Arrangement on Cotton Textiles (LTA) which had regulated international trade in cotton textiles since 1962. The new arrangement covers tops, yarn, piece goods, made-up articles, garments, and other textile manufactured products of cotton, wool or man-made fibres or blends. Bilateral arrangements between exporting and importing countries are still the rule, but trade is now subject to multilateral surveillance by a Textiles Surveillance Body, and a more precise definition of market disruption. The ITA, which is to last for four years, provides for the disclosure of existing quantitative restrictions and their justification or elimination.

LTA cotton textile quotas were extended on an ad hoc basis into 1974, pending the conclusion of bilateral negotiations under the ITA. The latter envisages a 6 per cent per annum increase in quotas for all included textiles from developing countries, but by the middle of the year the Commission of the EEC still had no mandate for negotiations, owing to the difficulty of deciding the allocation of quotas between the membership of the EEC, which was not prepared to allow free movement of textiles within the Community. Pending clarification of the EEC quotas position, it was reported that the authorities in Hong Kong had taken steps to increase shipments of cotton manufactures above the level permitted under the old LTA. At the same time, with complete elimination of the tariff preference on textiles of Commonwealth origin entering Britain after 31 December 1973, the full m.f.n. rates of duty were levied on imports of textiles from Hong Kong into the enlarged EEC in the ensuing year, owing to the exclusion of the Crown Colony from developing country benefits for those products under the EEC GSP scheme.

In the Tokyo Declaration inaugurating the current round of GATT mutilateral trade negotiations (MTN), a marked concern for the needs of developing countries was reflected in various ways; for example, in the expressed intention to treat tropical products as a special and priority sector, and in the statement that the developed countries do not expect the developing countries, in the course of the trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Moreover, there had been a general invitation to all developing countries, whether or not contracting parties

* Changing relations with the enlarged EEC on the part of Commonwealth developing countries in Africa, the Caribbean and the Indian and Pacific Oceans (the Protocol 22 Commonwealth countries), are referred to in the section of this report dealing with the EEC.

to GATT, to participate in the negotiations. It was assumed that one of the major concerns of developing countries would be to preserve as far as possible their margins under the generalized system of preferences (GSP) and to enlarge their overall benefits under the latter by an extension of its coverage. There is, however, a conflict between general liberalization of trade on a widespread basis and the maintenance or establishment of preferences in favour of particular groups of countries.

As regards the concern of developing countries with the erosion of GSP preferences by multilateral tariff reductions in the GATT MTN, since these preferences are only partial it would appear that equivalent benefits would be within reach: the preferences could be extended in commodity coverage or quotas, and in the direction of zero rating (for processed primaries). This would, however, cut out the effective preferences on these classes available to ACP countries under agreement with the EEC. To meet this difficulty the EEC Commission, in some of its proposed improvements to the scheme of generalized preferences for 1975 – angled, by choice of commodity, particularly at the Asian Commonwealth countries and their exports of palm oil, palm kernel oil, coconut oil and pepper – had suggested that such concessions date from the time of the next convention with countries in Africa, the Caribbean and Pacific (ACP). The intention was that export income stabilization schemes for the ACP countries, under the convention, would offer insurance against untoward effects from the partial loss of their exclusive preferences for those products resulting from a further degree of generalization of the GSP.

In spite of failure of the United States to implement its GSP scheme in 1973 or 1974, a step which would have had the potential for increasing the total value of trade covered by the GSP by more than half as much again, several other preference-giving countries changed or improved their schemes in varying degrees. Notable among these was the implementation by Australia, at the beginning of 1974, of a new and substantially broader scheme of tariff preferences for the exports of developing countries, to replace that in effect since 1966, and the implementation by Canada of its GSP scheme on 1 July 1974, the enabling legislation having been passed by Parliament in April 1973. Under the Canadian scheme, imports of manufactured and semi-manufactured products from developing countries are charged, item by item, either the British Preferential (i.e. Commonwealth Preference) rates of duty, or m.f.n. rates reduced by a third, whichever are less. Specified tariff reductions are also applied for selected agricultural products including cocoa derivatives, spices, rum, brandy, fruit juices and vegetable oils.

The adoption of the EEC scheme of preferences by Britain, Denmark and the Irish Republic as from the beginning of 1974 meant a changeover from schemes subject to traditional "escape clause" type of safeguards to a scheme subject to *a priori* limitations for imports of manufactures. The 1973 United Kingdom preferences, both with regard to product coverage and depth of tariff cuts in the field of processed agricultural products, had been more generous than those applied by Britain in 1974 under the EEC scheme. Improvements to the EEC scheme for that year – taking into account only the six original members – as compared with that of 1973, included higher preferential margins and an extended product coverage for processed agricultural products, as well as a reduction in the number of "sensitive" industrial products subject to tariff quotas in individual EEC countries.

EEC Commission proposals for the 1975 scheme, as put forward in the middle of 1974, led to the introduction of a system for freezing the preferential part of the market for specified semi-sensitive products already held by a few highly competitive developing countries, when they hit the cut-off point for imports at the preferential rate in two successive years or when they accounted for at least 40 per cent of the Community's imports of a product from beneficiary countries as a whole. Under this system of "equitable benefit sharing" or "competitive need" there is a let-out for countries with less than a minimal per capita GDP, or where their preferential exports of the product in question account for more than 10 per cent of their exports of eligible industrial products to the EEC.

Application of the principle of competitive need (which was also a feature of the outline scheme in the US Administration's Trade Bill) enabled the EEC to reduce the list of sensitive products (subject to tight administration and low maximum amounts from individual exporting countries), and to expand the list of semi-sensitive products correspondingly. The EEC's 1975 GSP scheme also increased ceilings for duty-free imports, by basing new calculations on 1971 and 1972 trade flows. In the field of processed "agricultural" products, new items included honey, cigars, castor oil and certain shellfish. As already indicated above, a preferential quota for Virginia flue-cured tobacco was opened in 1974 to take into account the interest of India: the European Council decided to renew and enlarge this quota for 1975, changing it from a price to a volume basis to prevent its erosion by inflation. A similar change was made for plywood.