

GENERAL AGREEMENT ON TARIFFS AND TRADE

SR.42/ST/36
22 December 1986

Limited Distribution

CONTRACTING PARTIES
Forty-Second Session

Original: English

EUROPEAN COMMUNITIES

Statement by Mr. Paul Luyten
Deputy Director-General for External Relations

Since we last met in regular session, the Community has proceeded to a further enlargement to include two more European countries. Today, our delegation comprises twelve contracting parties. The enlarged Community represents by far the largest share of world trade in goods and services, and accounts for more than 40 per cent of the trade covered by the GATT. We are aware of our pre-eminent position in world trade. We know it places a heavy responsibility on us. The proper functioning of the trading system will continue to require effort and contributions on the part of all, both developed and developing countries. At Punta del Este, our Ministers set down the approach to be followed.

Trade policy developments cannot be properly viewed other than against the background of the economic situation. The economic climate, both in the EEC and in the world generally, is improving, but only slowly.

Last year, I was able to give you a moderately optimistic account of economic developments in the Community, although I had to acknowledge that high unemployment remained an unbeaten scourge. The picture which emerges this year suggests that the underlying trends have not greatly changed.

A number of positive factors have emerged in the world economy: oil prices have fallen, the exchange rate of the dollar is more realistic (but only compared to some currencies and not compared to others which have followed the dollar's movement), interest rates have fallen (rather more sharply in nominal than in real terms) and inflation has slowed down markedly. However, investment has only grown unevenly and production in industrialized countries during the first half of 1986 did not, taken as a whole, develop uniformly: it still lags behind what had been anticipated. In many countries, particularly the EEC, high unemployment rates constitute a further brake on adjustment. World trade in goods grew in volume by 3 per cent during the first half of 1986, the same rate as for 1985 as a whole.

The major world economic problems are still far from solution. A better structured international monetary system remains a necessity in order to reduce instability in exchange rates. Commodity prices are generally depressed, seriously affecting many developing countries and their capacity to import. This "depression" of commodities markets in general is very likely more than merely a cyclical down-turn. It is partly due to modification in the nature of economic growth in advanced countries with a switch towards services and ever-decreasing use of traditional raw

materials in production processes; a reversal of this trend seems unlikely. A return to a more balanced structure at world level of current accounts will require, on the one hand, that the United States progressively reduce their budget deficit and, on the other, that dynamic growth takes place elsewhere. As I have already mentioned, the misalignment which results from the links of certain currencies with the dollar has exacerbated trade imbalances; exchange rate readjustments will not, however, constitute a panacea for existing imbalances, since these are partly the result of major differences between countries over domestic savings and investment. To correct these imbalances, modification in the macro-economic policies in different countries will be necessary. Overall, the present situation continues to cause concern. The debtor countries, in particular, require a minimum level of international growth to be able to adjust and to stimulate their own growth.

Interdependence in the economic field has increased. One of the manifestations of this interdependence is the huge increase in cross-border capital movements and the globalization of financial markets. This is an irreversible reality and it represents a formidable challenge. Governments have been losing control over some of their most important domestic policy instruments and have become more exposed to policies adopted in other countries over which they have no say.

The answer must lie in more and better international co-operation and co-ordination of policies. In the GATT, we are in charge of commercial policy. Let us continue to show, as in Punta del Este, that in this area we are doing our job. GATT at least does not share the tendency to self-satisfaction prevalent in other international organizations.

Reinforcement of the Community's own economic growth on a sound basis constitutes our main contribution to the international adjustment process.

Within the Community, moderate recovery has continued during 1986 and will probably be maintained in 1987. Some acceleration in real GDP growth is forecast: we expect 2.8 per cent growth in 1987 compared with 2.5 per cent in 1986, as against 2.4 per cent in 1985. This implies nearly one percentage point less than the 3.5 per cent growth of internal demand. However, the struggle against unemployment has so far produced very disappointing results: the unemployment rate is expected to remain virtually unchanged, at around 11 per cent. As such, unemployment will remain our main economic problem.

The Community's exports to third countries remain undynamic. Having stagnated in 1986, the Community's performance on export markets will no doubt register a slight improvement next year (a progression of some 2.4 per cent in real terms) as a consequence of the recovery in world trade. However, since EEC imports will continue to show substantial growth (of about 6.5 per cent), the effect will be that the Community will continue to contribute towards levelling out disequilibria affecting world trade.

In the context of the evolution of Community trade with its partners, relations with Japan require particular mention. Until the early 1970s our bilateral trade with Japan was in balance. Ever since then we have witnessed a deterioration in our trade balance with that country: there was a Japanese trade surplus of \$14.3 billion during the first six months of 1986, equivalent to a 60 per cent rise over the same period in 1985. Other countries appear to be similarly affected by such persistent trade imbalances. We see this as symptomatic of a GATT system which is unable to provide an adequate degree of mutual advantage for all. Market access must therefore be a central issue in the Uruguay Round.

The continuing existence of protectionist measures is a matter of concern to the Community, as it must be for all who subscribe to the multilateral trading system. But undue pessimism is not warranted, in our view. The prophets of doom should note that a start has been made, even if modest, in tackling trade restrictive measures and their causes. Let me in this connection refer to the textiles and steel sectors.

The Multifibre Arrangement was renewed in July 1986, after lengthy negotiations in which the Community participated actively and constructively. The renewed MFA will, over the next five years, constitute an appropriate framework for the orderly development of trade in a sector which is still fragile. Further, the Community has declared its readiness to deal, during the Uruguay Round, with factors that would make the final objective of the application of GATT rules to textile products possible and lead to progressive liberalization of trade in textile products by all partners, while taking account of the situation in the textile and clothing industry.

The Community has confirmed that it intends to apply the provisions of the MFA with greater flexibility. It translated this intention into action in its negotiations with some twenty-six countries for the renewal of bilateral textile agreements. Each of these agreements contains provisions which are more favourable than those of the régime applicable up to 31 December 1986. In particular, more favourable treatment has been foreseen for the least-developed countries, for small suppliers, for newcomers, for cotton-producers and for suppliers which maintain open markets for textile products. Taking these agreements as a whole, a reduction of 25 per cent in the number of quantitative limits has been achieved.

The steel sector is another area of preoccupation. The Community's steel arrangements are mentioned in the secretariat's overview of trade policy developments. It is important to note that most of these fourteen arrangements, only three of which are with developing countries, are based on price disciplines. Most of them do not entail the imposition of effective quotas or restrictive licensing. In many cases, where indicative export quantities are provided for, these quantities have not been attained, actual imports in the EEC having only reached some 50 per cent of the level foreseen. In 1986, two of these arrangements were renewed at the

explicit insistence and request of the exporting countries concerned, the EEC having proposed to discontinue them. For 1986 we relaxed these arrangements and for 1987 it is our intention to relax them further.

Agriculture in a state of crisis is one of the prominent topics of the day, whether in the Community or in international fora. The agricultural economy of the present day is characterized by over-production, brought about inter alia by the extraordinary advance in productivity in this sector, and the enormous stocks, ever-increasing expenditure and tension in agricultural trade which result from that over-production.

The origins of this crisis are not necessarily to be found within the precise area of export and import policy conducted in one or another region of the world. Trade mechanisms only reflect national support policies in the agricultural sector. There are virtually no countries in the world which do not intervene to support or protect their agriculture, even if only by phytosanitary measures, and which accept that market conditions should automatically and fully determine conditions in their internal markets, as well as producer incomes. These policies inevitably have an impact on the volume of supply which is in fundamental imbalance relative to world demand.

We must look for a balanced solution in the agricultural negotiations resulting from a concerted and co-ordinated approach, and which involve all participants in the world market -- importers and exporters alike, bearing in mind the specific characteristics of this sector. We must seek to match agricultural production with world demand and to determine the means to achieve this through better market access, more disciplined competition rules, whilst of course taking due account of the different policies followed by individual participants. The specific characteristics of agriculture are reflected in national policies, because agriculture is not just an economic activity but is part of the social fabric, particularly of course in rural areas, determining the lifestyle of a large percentage of the population.

The Community has already started down this road, for example, in the milk and cereals sectors; but only a concerted and collective effort by all participants will enable us to correct the situation and to begin the negotiations in this sector with the hope of success.

We have taken a first remarkable step with the successful launching of the Uruguay Round at Punta del Este. We demonstrated then that traditional practices founded on GATT principles and put into effect with goodwill and pragmatism, can and do lead to results satisfactory to all. In this context, and in view of the need to strengthen the secretariat's technical assistance to developing countries for the new round, the Commission is examining the possibility of setting aside a small financial contribution, in ECUs, for such support. But we are only at the beginning of a long and complex negotiating process. Our immediate horizon is to make sure that the standstill and rollback commitments undertaken in Punta del Este are

observed by all participants. Regrettably, there is evidence that standstill is being taken too lightly by some. At the same time, it is incumbent on us to ensure that an adequate surveillance mechanism is in place. The deadline set by the Punta del Este Declaration for making the practical arrangements for the negotiations must be respected, whilst at the same time ensuring a global and balanced approach. The inclusion of non-traditional subjects in the negotiations, notably services and intellectual property, is a major step forward. These subjects must be handled in parallel with the rest of the negotiations. Our Ministers have given us a clearer and more detailed steer than was the case in previous rounds. We have no excuse for delay. We must not reopen questions settled by them. It is now up to us to get the negotiations going. Let us get on with the job.