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Foreign Trade

Preparations for the Nixon Round

by Dr Peter Hermes, Bonn *

The next round of GATT negotiations—the so-called “Nixon Round”—will be opened at the ministerial level in Tokyo on September 12-14, 1973, and probably continue for several years in Geneva. Less developed countries (LDCs) which have not joined GATT but nevertheless wish to participate in the negotiations are to be invited for the first time. UNCTAD and IMF will be among the most directly engaged observers.

Since the beginning of this year the preparations for the Nixon Round have been in an active phase. The preparatory committee which was appointed by the contracting parties of GATT at the 28th council meeting in November 1972 met in Geneva on January 31, 1973. Though at this first consultation the industrial countries — especially the USA, the European Community (EC) and Japan — were neither willing nor able to state views on matters of substance (the EC in particular is urging that the preparatory committee should not exercise negotiation or even pre-negotiation functions), agreement was reached in principle on two points:

- ☐ More weight is to be attached this time to the removal of non-tariff barriers to trade, alongside a further comprehensive reduction of tariff rates,
- ☐ the interests of the LDCs are to receive greater consideration.

Of great importance is also the demand of the USA, Australia and many LDCs for world-wide liberalisation of the trade in agricultural products, a sector which had been largely excluded from the Kennedy Round.

Demands by the Third World

As was to be expected, the LDCs have already raised much more far-reaching demands in the preparatory committee. They took their stand on the objectives which have been formulated by the United Nations for the 2nd Development Decade and in particular on Resolution 82 (III) which was adopted at the third UNCTAD conference: Waiver of reciprocity, extension of the preference system and non-discrimination should be recognised as general guidelines for the negotiations. Amongst

other Third World objectives in the coming negotiations are improved access to markets (especially for tropical produce), concessions on price policy and commodity agreements and a general exemption from the most-favoured-nation treatment for preferences accorded by LDCs to each other. The Third World, incidentally, refused to define its conditions for participation in the Nixon Round in concrete terms before aims and methods of the negotiations had been definitely fixed.

The preparatory committee will hold further meetings in May and June and present a report for the Conference of Ministers with detailed proposals for the negotiations by July 25.

In the view of the Director General of GATT, Olivier Long, the preparatory committee is also to enable the LDCs by early participation in the preliminary work to make a realistic appraisal of their negotiating position. Whether this aim itself is realistic will depend on the success of a project on which the United Nations Development Programme (UNDP) has embarked in implementation of UNCTAD Resolution 82 (III) and which owes its origin to the negative experiences of the LDCs during the Kennedy Round. In collaboration with UNCTAD's permanent secretariat in Geneva a team of experts is to be placed at the disposal of the LDCs for the duration of the Nixon Round to supply them with data and analyses (e.g. market studies) and other technical assistance they may wish to receive. Whether the LDCs will manage to form blocs to represent their interests before the Nixon Round begins remains to be seen.

About the preparations in the USA it may be said that President Nixon on April 10 sent the Trade Reform Bill 1973 to Congress. This Act will give the Administration negotiating powers for five years and authorise it in particular to

- ☐ raise or lower tariffs without limitation;

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☐ negotiate the removal of non-tariff barriers to trade (subject to a Congress veto in some fields within 90 days);

☐ raise tariffs or impose other import restrictions against countries which discriminate against US exports;

☐ make use of the instruments of trade policy for keeping the balance of payments in equilibrium (e.g. by imposing temporary import surcharges or, in case of balance of payments surpluses, suspending or reducing tariffs);

☐ facilitate imports to combat inflation;

☐ expand trade with socialist and developing countries (by extending most-favoured-nation treatment to state trading countries and joining the generalised preference system — preferences however are ruled out for developing countries which will not let their reverse preferences expire by January 1, 1976).

US Trade Reform Act

The notably tough language of this bill has re-kindled fears that the USA is getting ready for a confrontation with the EC and Japan and that it will treat the efforts for world trade liberalisation in the coming GATT Round as secondary to enforcement of its own interests. Observers in Washington however reported that this language has been chosen primarily for the domestic purpose of neutralising the strong protectionist forces in the legislature and public. It may be regarded as a positive result of these efforts that in the House of Representatives Wilbur D. Mills recently spoke up against bringing-in general import quotas and that George Meany, the powerful leader of the AFL-CIO trade union organisation, has lately been less uncompromising in his opposition to Nixon's ideas on trade policy.

That the President is to be given considerable discretionary powers regarding the use to be made of the restrictive measures should receive at least as much attention as the text of the Trade Reform Bill, for how these discretionary powers will be used may prove crucial.

The EC's Common Approach

Europe will certainly agree with the United States on the need for a reform of the rules governing international trade to take the changes since GATT was established (in 1947) into account. But any reform should be undertaken with the clear objective of a further liberalisation of world trade and certainly not be used as an occasion for taking protectionist and restrictive measures.

In the EC instructions were given to the executive bodies at the summit conference on October 19/20, 1972, to work out a common standpoint for the next GATT round by July 1, 1973. The official communiqué of October 20, 1972, stated that the Community was willing to "participate in the open-minded spirit that it has already shown earlier... in negotiations based on the principle of reciprocity... in which the interests of the developing countries must be taken fully into account". In April the Commission submitted the draft of an EC concept for the negotiations to the Council of Ministers. The work of coordination within the framework of the EC will have the aim of equipping the Commission with comprehensive negotiating powers covering also questions of detail so as to avoid delays such as occurred during the Kennedy Round because matters had to be referred back to the Council of Ministers at short notice.

Statements from the camp of the industrial countries showing understanding for the distress caused to LDCs by shortcomings of trade policy have not been lacking. That aid can be no substitute for trade is generally recognised in principle. GATT itself was amplified in 1964 by Part IV with the intention of offering the LDCs improved access to other markets. According to Part IV it is no longer permissible to erect new trade barriers against products from developing countries, and such barriers as exist are to be removed. New rules of procedure have improved the facilities for cooperation inside GATT. The newly founded Committee for Trade and Development makes sure that these provisions are observed.

Position of the LDCs

It must however be noted that so far these steps have not greatly improved the position of the LDCs. Their proportional share in world trade has gone down further (from 21.3 p.c. at the beginning of the sixties to about 17 p.c. at the present time). Capital aid by industrial countries for the setting-up of industries in the Third World appears in a dubious light when no outlets can be found in the industrial countries for semi-manufactures and finished products from the LDCs. The latter are also facing special difficulties in the agricultural sector. The world is still far from an effective system of generalised preferences. The positive decisions of the Kennedy Round have been called in question by the frequent currency crises of recent years. And the indebtedness of some LDCs has greatly worsened.

Although the contracting parties have not yet defined their negotiating positions in detail, the key-points of the Nixon Round negotiations which have a special bearing on the conflict between

North and South can already be indicated as follows.

Tariff and Non-Tariff Trade Barriers

All industrial countries favour far-reaching tariff reductions in the long term but Japan seems to be alone in aiming at this far-going objective already for the Nixon Round. More realistic is probably the project of a linear-progressive reduction of most industrial tariffs under which the high protective duties are to be cut down most in the first 10 years and all others in 15–20 years. Products which are specific to LDCs will this time have to be given more consideration.

Any substantial tariff reduction will of course tend to erode the preferences which have been conceded to the LDCs. Besides, import duties are still a major source of revenue for many LDCs (to say nothing of their protective function). Concessions to LDCs through certain transitional arrangements will therefore be indispensable.

Furthermore, care will also have to be taken that there is no "compensating" for tariff reductions by new or strengthened trade barriers in other fields. Arrangements for the exemption of sensitive commodities and individual industries facing difficulties in the way of structural adaptation should in any case be required by more far-reaching liberalisation in other sectors.

In its current approach to the negotiations the European Commission aims at harmonising the tariffs of the industrial countries, some of which are for structural reasons still diverging widely, as part of general lowering of tariffs. In the Federal Government's view it should in many instances be possible to abolish economically insignificant petty duties (of less than 3 p.c.) immediately.

The US Trade Reform Bill envisages the possibility of taking action against balance of payments disequilibria by the means of trade policy (i.e. import restrictions to counter a deficit). The Commission of the European Community has not yet adopted a common standpoint on this issue. German circles believe that such recourse to trade restrictions should be obviated in future by evolving efficient mechanisms of adjustment in the framework of the reform of the world monetary system. In exceptional cases only could it be tolerated as the ultima ratio; and consent by the IMF Board of Governors and the IMF Council of Representatives would have to be stipulated for it.

The list of 800 non-tariff and quasi-tariff trade barriers notified by the contracting parties which was compiled some years ago is being brought

up to date at present. It has been pointed out repeatedly that general tariff reductions are of little use to developing countries in particular unless accompanied by removal of non-tariff obstacles. This has not hitherto been the case, and these practices have therefore become, at least relatively, more onerous.

Proposals for solutions are already available in the GATT Secretariat in regard to some issues, e.g. for the harmonisation of legislation on tariff value appraisal (Explanatory notes on Article VII of GATT are to ensure uniform application of these provisions) and for the complex of import licensing procedures. In this last-mentioned field in particular the Federal Republic of Germany has already anticipated possible future obligations by allowing 5,225 of 8,300 tariff items to be imported without an entry declaration. A combination of the German country lists – A (OECD members) and B (all other countries except state trading countries) – and the consequent elimination of the distinctions made in the treatment of different countries of origin is being discussed in the context of the European Community's common trade policy. (Countries on list B are subject to certain import restrictions in the industrial and agricultural sectors.) The checks against discriminatory application of import licensing procedures which GATT already contains should be re-examined and possibly be brought up to date.

In this list of subjects for the negotiations no mention has been made so far of the really controversial issues. Among these priority should be given to the preparation of proposals relating to export subsidies, compensatory duties and quantitative import restrictions because these have notably restrictive repercussions on world trade. Moreover, the so-called self-restraint agreements and the export cartels and export licences (Japan) should be regarded as economically undesirable and be tackled in the negotiations.

Elaboration of the Rules on Protective Clauses

It will be another major aim of the negotiations to elaborate the provisions concerning protective clauses in Article XIX of GATT so as to meet current requirements. The US Trade Reform Bill envisages a number of measures which are incompatible with this Article. The Nixon Administration aims at making the access to adjustment grants easier. In future growth of imports is no longer to be the sole, but merely the most important, criterion for determining whether damage caused by it to the domestic economy calls for protective measures. Orderly marketing agreements, as well as tariff and quantitative restrictions, are regarded as such measures and are to be allowed for no more than 7 years.

The European Community will try to avert the threatening dangers by extending the control competencies of GATT or creating new ones. It would like to see Article XIX to be preserved in principle. Essentially the task will be to make sure that a country which invokes the protective clause and imposes restrictions on imports will at the same time initiate measures to restructure and readjust the industries involved. As a matter of principle, protective measures should only be sanctioned for a limited period and on a degressive scale.

Liberalisation in the Agricultural Sector

The principal exporters of agricultural products, especially the USA, are demanding that agricultural and industrial products should receive approximately equal treatment. One of the most far-reaching demands involves the transformation of the existing system for the protection of agriculture into one of fixed tariffs and their removal within 10 years; it is being supported by the LDCs and primarily directed against the market order system of the European Community. It would however be unrealistic to believe that the common agricultural policy will be sacrificed on the altar of the next GATT Round. How the common agricultural policy can be developed further in the light of experience to date to meet current needs is another matter.

President Nixon abstained from asking Congress for special negotiating powers for the agricultural sector. Realisation of how little scope is left to the EC for negotiations in this field may have contributed to this decision. Nevertheless the Trade Reform Bill makes unmistakably clear what great importance the United States is attaching to liberalisation of the agricultural markets: It is considered the only effective way of dealing with the structural distortions in this sector.

The fact that the agricultural market orders have the purpose of bolstering farmers' incomes, and that by means of variable levies, presents particular problems. One cannot see at present how the levy system and the size of the levies in the European Community can be modified without jeopardy to the long-term programme for structural adjustments in European agriculture. The EC could however suggest that use should be made at least of the limited scope for negotiating a system of guaranteed minimum and maximum prices for such commodities as grains, rice, sugar and certain dairy products. This would have to be supplemented by stockpiling measures.

The demand for improved market access for tropical produce is likely to be favourably received.

Apart from tariff cuts, increased and possibly also additional import quotas are being contemplated in the EC. Difficulties will be encountered in regard to a limitation of market support for surplus products because under the major market order systems there is no limit to the obligatory intervention. It could already be assessed as a success if agreement were reached in this sector not to make any new arrangements involving unlimited intervention.

A proposal by the European Community to move towards an international agricultural market order by "freezing" all subsidies for grains, dairy products, animals and meat was already put forward in the Kennedy Round. It remains to be seen whether this proposal can be taken up with more success in the future.

More Efficient Preference Systems

The generalised preference system which was introduced in 1970 and has been binding on the European Community since July 1, 1971, has only partly fulfilled earlier expectations. That was the conclusion reached in a documentation presented by UNCTAD in April 1973. Its failure was in the main attributed to the following factors:

- ☐ The preferential treatment granted by the most important industrial nations (with the exception of the USA and Canada) applies only to about 10 p.c. of all Third World exports.
- ☐ Important product groups (e.g. cotton textiles, copper, petroleum products) have been excluded from the preferences, and the preferences are covering only about 2 p.c. of all agricultural exports from LDCs.
- ☐ The imposition of import quotas on sensitive commodities often had the result that in practice not even these ceilings were reached.
- ☐ The enlargement of the European Community and the tariff adjustments between it and EFTA have led to a further dilution of the system.
- ☐ Many LDCs cannot avail themselves of preferences at all because of their lopsided economic structures (monocultures).
- ☐ In many cases the preference system cannot lead to an expansion of production and export capacities, for the simple reason that the necessary capital is lacking (more particularly in the least-developed countries; the multinational companies have often become beneficiaries of the system).
- ☐ Countries like Yugoslavia, Mexico and Brazil which can certainly not be counted among the most needy LDCs have been those to derive the greatest advantages from the system.

The task for the Nixon Round is thus to make the system of generalised preferences more efficient. The prospect of US accession to the system which the Trade Reform Bill is opening up is creating favourable conditions in this direction. In this context the question of the reverse preferences must not be overrated. The Federal Government has received the demand for the waiving of reverse preferences with understanding. In the European Community the question has not yet been finally clarified. It should ultimately be left to the LDCs themselves to make the decision about the grant of reverse preferences.

An extension of the system of generalised preferences to more agricultural products and the raising of the ceilings for sensitive industrial products will be much more important than the relatively insignificant waiving of reverse preferences. The European Community may furthermore propose that some commodities which are covered by the preference system and of special interest to developing countries should be exempted from the general formula for tariff reductions so as to preserve the preferential margin in favour of the LDCs for the time being. There is also scope for negotiations in regard to the regulations on the origin of goods.

Finally, the least-developed countries should be given special help through the grant of technical assistance to make better use of their trade opportunities.

The Nixon Round should bring a solution closer for a major part of the problems sketched here. Progress with the reform of the world monetary system would create further positive elements. The question of the position and chances of the developing countries in the negotiations will for the time being remain an open question. The Director General of GATT, Olivier Long, said recently that the Kennedy Round had been the last world trade round in which the industrial countries negotiated more or less amongst themselves. In the coming round the demands of the Third World would be on the agenda right from the beginning; it would be impossible to disregard them. This forecast however says nothing about the real bargaining power of the developing countries. Only by coordinated action for precisely formulated targets will the developing countries be able to do justice to their interests. Maximal global demands, on the other hand, would hardly be a suitable means of taking advantage of the growing understanding in industrial countries for the necessity of integrating the Third World with the world economy.

UN Economic Conference in Africa

by Hans Wallner, Bonn *

The 11th session of the UN Economic Commission for Africa and the second Ministerial Conference of that Organisation took place in Accra from February 19 to 23, 1973. The Commission—a regional organisation of the United Nations—has 41 independent African states as members.

The most important subjects on the agenda of the Conference were: the possibilities of intensified cooperation between African states; the reorganisation of the markets for agricultural and mineral raw materials which the African states consider necessary; the promotion of African interests in the multilateral trade talks due to begin this year under the auspices of GATT; and due attention to African interests during the discussions on the reorganisation of the world monetary system. On the insistence of Nigeria and the Organisation for African Unity, the question of future relations between Africa and Europe was struck from the agenda. Nevertheless, this problem with its many different aspects played a

major role in numerous bilateral contacts between African states, at a meeting in Accra of African experts and also at a preliminary conference, in Lagos, of the African member-states of the British Commonwealth.

Intra-African Cooperation

Most of the African states have for long been conscious of the need for closer economic cooperation with each other in the fields of trade, services, the transfer of money and capital, the right of citizens of one African country to take up residence in another, investments, the free move-

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