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The US Trade Policy towards the EC in the Tokyo Round

by Reinhard Rode, Frankfurt*

The seventh round of GATT negotiations was brought to a conclusion in the spring of this year. One of the objects for the USA was to correct the trend of world trade which had been to its disadvantage. Its main concern was to bring about a settlement of the trade relations with the western industrialized states and the EC in particular. Has the USA achieved these aims?

The trade relations between the United States and the European Community are overshadowed by the strains and stresses between cooperation and competition common to states and blocs with market-orientated economic orders by reason of their system. This relationship between them is rendered more complex by the economic decline of the politically and militarily predominant western state, the USA, which was reflected very clearly in the trade sector. The US balance of trade has been almost continuously in deficit ever since the late sixties. This malaise has given rise to discussions in the USA which still continue and focus on the question of what is the appropriate foreign trade policy. So far the advocates of an open policy aiming at freer trade through the traditionally favoured multilateral approach have always had their way. But they have come in for stronger criticism on the domestic stage from affected industries and the trade unions which has been echoed in Congress. Other governments and supporters of free trade solutions, including the multinational corporations in particular, have therefore felt a greater need than previously to prove that their policy works to the advantage of the USA. The epithet of "fair trade" has lately been given a higher rating than the conventionally trusted "free trade", and "fair" means in this context mainly advantageous to the USA. Where this was not the case claims for concessions were presented to the trading partners of the USA.

US-EC Controversies

These claims affected the European Community in particular. The EC and Canada are the major trading partners of the USA. In 1976 the EC absorbed about 22 % of the US exports and supplied 15 % of its imports while Canada accounted for 21 and 22 %[1]. Although the USA always had a surplus in its trade with the EC except in 1972, it had lodged a number of demands for improved access for US export products to the EC market and against an extension of the trading bloc competing in the world market. Controversies arose from the enlargement of the EC from six to nine member states, from the EC's system of preferences for developing countries and especially from the Common Agricultural Policy (CAP) of the EC countries. The rise of the EC as a powerful trading bloc gave rise to growing fears in the USA that this process would impair its own position in the international trading system and led to demands for compensatory European concessions[2], especially in the agricultural sector. The underlying argument was that the agricultural policy of the EC was manifestly impairing US sales opportunities as could be inferred for instance from the increase in US agricultural exports to the EC between 1962 and 1972 by no more than 87 % compared with their overall rise by 156 %[3]. The variable levy system of the EC, which does not only regulate the internal market but also affects the foreign trade because it encourages overproduction, aroused especially strong criticism: on the one hand, it reduced the opportunities for imports in the EC market; on the

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[1] Cf. International Economic Report of the President, transmitted to Congress in January 1977, Washington Government Printing Office (GPO) 1977, p.25.

[2] The apprehensions of the USA were indicated by the State Department's 1971 submission to the Williams Commission. Cf. Change and Interdependence, The United States in an Interdependent World, prepared by the Department of State, in: Commission on International Trade and Investment Policy, U.S. International Economic Policy in an Interdependent World, Vol. 1, Washington GPO 1971, p.8ff.

[3] Cf. 93/2 U.S. Congress, Senate, Committee on Finance, Executive Branch GATT Studies, Washington GPO 1974, p.213.

other, overproduction was leading to greater export efforts and aid measures making for more intensive competition in third markets[4]. In evidence of its loss of market opportunities the USA pointed out that the US agricultural exports to the EC in 1962-1972 increased by no more than 12 % in the case of products subject to the levy system and by 134 % for other product groups[5].

This line of argument was pursued by the USA although its agricultural trade with the EC had regularly been in surplus. Figures for 1974-1976 show that in this period the USA supplied five times more agricultural products to the EC than it received from it[6]. This example shows that "fair trade" means to American minds primarily the opportunity to exploit its comparative advantages with a minimum of hindrance. This idea was also behind the US attempt to reorganize the world trading system in the Tokyo Round of the General Agreement on Tariffs and Trade (GATT) and to remove more trade barriers. The object was to correct the trend of world trade which had been to the disadvantage of the USA. Its main concern was a settlement of the trade relations with the western industrialized states and the EC in particular. The legal basis for multilateral trade agreements had been given to the US Administration by the 1974 Trade Act[7] included in which was an offer of cooperation to the partner states but also, if the concessions by others were inadequate, the possibility of unilateral measures by the USA.

The original GATT of 1947 was a global attempt to establish a post-war world trading system according to liberal ideas by deployment of the set of instruments of multilateral cooperation[8]. Advances towards further liberalization were achieved in subsequent multilateral negotiating rounds of which the Dillon Round[9] and Kennedy Round[10] were the most important. Their main feature were agreements to cut the customs tariffs. In the sixth (Kennedy) round the USA granted tariff cuts of 37 % to the EC outside the agricultural sector while the EC tariff concessions to the USA averaged 33 %. Farther-reaching arrangements however failed in face of the reluctance of the US Congress to relinquish the American Selling Price System (ASP)[11].

At the Ministerial Meeting of GATT member states in Tokyo in September 1973 it was agreed to convene a new negotiating round (the so-called Tokyo Round)[12]. It was however impossible to make a start on substantive negotiations before the spring of 1975 at which time the Trade Act provided the US Administration with the required authority. In the Tokyo Round, unlike previous rounds, tariff questions were only of secondary importance; the so-called non-tariff trade barriers occupied the centre of the stage[13].

Negotiating Aims

Ever since the EC came into being the controversial agricultural policy has been the principal bone of contention between the USA and the EC[14]. The US stance in the Tokyo Round of multilateral trade negotiations (MTN) comprehended a linkage of the agricultural problems with those of the industrial sector. This attitude was in any case indicated by a direction in the Trade Reform Act[15]. The EC on the

[4] "From the viewpoint of third countries like the United States, the effect of CAP is to squeeze out imports as domestic production rises, and to disrupt markets in third countries by subsidizing exports", ibid., p.215.

[5] Ibid.

[6] Cf. U.S. Department of Agriculture, Economic Research Service, Foreign Agricultural Trade of the United States, April 1976, p.108.

[7] Public Law 63-618. Cf. R. Rode: Die Handelspolitik der USA in den siebziger Jahren. Ein freihändlerisch-protektionistisches Verwirrspiel? (The trade policy of the USA in the seventies. An exercise in disorientating free traders and protectionists?), in: Politische Vierteljahresschrift, 19th year (1978), No. 3, p.328ff.

[8] GATT was established as an agreement only, an "executive agreement" according to US law, because the International Trade Organization (ITO) which was orginally planned as a continuing organ could find no majority in the US Congress. Executive Agreements are negotiated and signed by the President by virtue of powers delegated by Congress. Treaties on the other hand have to be approved by a two-thirds majority of the Senate. Concerning ITO cf. R. E. Hudec: The GATT Legal System and World Trade Diplomacy, New York 1975, p.9ff. Extensive information on the GATT rules is found in: P. Lortie: Economic Integration and the Law of GATT, New York 1975.

[9] Called so after the US Under-Secretary of State C. Douglas Dillon. On the Dillon Round cf. G. Curzon, V. Curzon: The Management of Trade Relations in the GATT, in: A. Shonfield (ed.): International Economic Relations of the Western World 1959-1971, Oxford 1976, p.168ff.

[10] Cf. J. W. Evans: The Kennedy Round in American Trade Policy. The Twilight of the GATT?, Cambridge/Mass. 1971, and H.B. Malmgren: International Economic Peacekeeping in Phase II, New York 1972. The tariff cuts effected in the Kennedy Round are listed by Evans in Table 6 on page 283. Cf. also G.P. Casadio: Transatlantic Trade. USA – EEC. Confrontation in the GATT Negotiations, translation from the Italian, Lexington/Mass. 1973.

[11] Cf. G. Curzon, V. Curzon, op. cit., p.192.

[12] Statement by the Ministerial Meeting of GATT member states in Tokyo on September 12-14, 1973.

[13] For the subjects of the six MTN working groups see S.J. Anjaria: Nontariff issues in the MTN, in: Finance and Development, Vol. 13, No. 2, June 1976, pp.21-24; and by the same author: The Tokyo Round of Multilateral Trade Negotiations, in: Finance and Development, Vol. 15, No. 1, March 1978, p.14f.

[14] A useful survey of the contentious issues between the EC and the USA is given by C.G. Bare: Trade Policy and Atlantic Partnership: Prospects for New Negotiations, in: Orbis, Vol. XVII, Winter 1974, No. 4, p.1280-1305. A comparison of the agricultural policy in the USA with that of the EC is found in V.C. Sorenson: International Trade Policy: Agriculture and Development, East Lansing/Mich. 1975, p. 87-108.

[15] Thus in Section 103: "To the maximum extent feasible, the harmonization, reduction, or elimination of agricultural trade barriers and distortions shall be undertaken in conjunction with the harmonization, reduction, or elimination of industrial trade barriers and distortions".

other hand took the view that the "Agriculture" working group at the MTN was the only competent forum for negotiations on agricultural trade problems. The USA however wanted it to discuss special problems which would be useful for the work of the "Tariffs" group. In the first year of negotiations (1975) it was impossible to resolve this procedural question although agreement was reached on the formation of sub-groups for grains, dairy products and meat.

The proposals of the US delegation on the subject of tariff cuts comprised three alternative formulas based on the linear tariff cuts approach which had been used in the Kennedy Round. Proposal 1 contained the concept of a general cut of tariffs by 60 %. Proposal 2 offered a linear reduction of 60 % down to a basic level of 5 %. Proposal 3 combined the 60 % linear cuts with a harmonization factor.

The EC on the other hand proposed a harmonization formula: the higher the existing tariff, the sharper was to be the cut. Its aim was to cut the higher duty rates more severely than the lower ones down to a minimum rate of 5 %. A common external tariff must be retained in the Community's interest; otherwise the customs union aspect of the EC would be eroded and the Generalized System of Preferences for developing countries rendered superfluous.

The "Sector approach" group was of special interest to the USA. The trade reform had mandated the delegation to press in the negotiations in regard to suitable production sectors for export opportunities such as were conceded to same or similar import goods in the US market[16]. Suitable products – namely steel, aluminium, electronic products, chemicals and electromotors – were even specified in the version of the Trade Act which the finance committee put before the Senate. The European Community and Japan were in general against the sector approach to the negotiations.

The "Safeguards" group was concerned with measures taken by countries in defence of industries which are threatened or injured by competing imports. In 1975 this group was merely engaged in listing and examining practices of this kind. On this basis it was to be decided whether Art. XIX GATT which deals with safeguards was to be redrafted.

The "Non-tariff measures" group agreed in the first year on the establishment of four sub-groups on quantitative restrictions, subsidies and countervailing duties, technical barriers to trade as well as customs matters, while the "Tropical products" group came to an understanding on bilateral action concerning products of interest to developing countries.

According to American ideas at that time the trade round was to be concluded in 1977. The following intermediate objectives were indicated for 1976:

- ☐ An agreement on tropical products,
- ☐ A formula for the tariff cuts,
- ☐ A framework for a code on the issue of subsidies and countervailing duties,
- ☐ The completion of a code on standards,
- ☐ A procedure for the operation of quotas,
- ☐ A basis for the revision of the GATT safeguards system,
- ☐ The selection of sectors for the parallel negotiations,
- ☐ Progress on the decisions concerning special treatment of developing countries,
- ☐ A start on negotiations on such problems as access to common supplies, arbitration procedures,
- ☐ Treatment of taxation practices, bribery and other "unethical" trade practices and public contracts.

The US delegation furthermore urged adoption of the joint declaration by the western heads of state at their Rambouillet summit in November 1975[17] which demanded that the multilateral trade negotiations should be speeded up[18].

Progress of the Tokyo Round

In 1976, 1977 and 1978 the negotiations made only slow progress so that the original time schedules concerning the conclusion of the trade round had all to be constantly revised. Substantial advances between the two major parties, the USA and the EC, were first achieved in 1977. By January 1978 a compromise was reached on a formula concerning the tariff cuts issue which linked linear reductions with harmonization. In mid-July 1977 the USA and the EC succeeded in

[16] Section 104 of the Trade Act.

[17] The western heads of state and government resolved at this meeting that the trade negotiations in Geneva should be speeded up and that the aim should be to conclude them in 1977. The greatest possible measure of trade liberalization was stated to be the objective of the negotiations.

[18] The US negotiating objectives outlined here are summed up in: Oversight Hearings on U.S. Foreign Trade Policy, 1976, p.490ff., and 94/1 U.S. Congress, House, Committee on Ways and Means, Subcommittee on Trade, Background and Status of the Multilateral Trade Negotiations, Supplement I, Washington GPO 1975.

[19] Cf. General Agreement on Tariffs and Trade, Activities 1976 and 1977, Geneva 1977 and 1978.

reaching a first agreement on tariff and non-tariff barriers in the agricultural and industrial sectors, and the talks on government procurement policy and on the rules for an international trade order were now getting under way[19].

It was possible to make progress because Mr. Robert Strauss, the special trade representative of the US President, and Vice-President Haferkamp of the EC Commission had reached agreement in Brussels in July 1977 on a detailed working programme which envisaged conclusion of the negotiations by early 1978. The impulse had again come from an economic summit, the one held in London on May 7-8, 1977. At this meeting the heads of state and government of the United States, the Federal Republic of Germany, France, Great Britain, Italy, Canada and Japan agreed to press forward vigorously with the Tokyo Round. The intention was to work out a comprehensive negotiating package on which the USA and the EC would subsequently take their stand in Geneva. The technical details were to be negotiated between an EC delegation and representatives of the US Administration in Washington on July 15-16, 1977. An essential element of successful negotiations was, according to Ambassador Strauss, to be a reduction in the sphere of tariffs approaching the 35 percentage points of the Kennedy Round. As for the non-tariff trade barriers, he wanted to see rules adopted in regard to the procurement regulations for public contracts which would have a neutral effect on trade. He also wanted uniformity of the safeguards against import competition, focusing on a code on export subsidies and countervailing duties. It became once more clear that the USA expected the Europeans to offer concessions in the agricultural sector; without such they could see no successful end to the negotiations. The USA laid special stress on a reform of the European practice in regard to the variable levy system for agricultural products. The USA wanted the GATT articles to provide for an explicit system of surveillance for GATT decisions[20]. The important "Agriculture" group achieved agreement on a negotiating programme later in the Geneva round[21].

Open Questions

On January 23, 1978, after nearly four years of preparations it was possible to enter into the crucial stage of substantive negotiations. The Americans had put concrete demands on the table. The EC and Japan declared their willingness to conclude the Tokyo Round successfully. For the first time it was possible to set a date for its conclusion: the middle of 1978[22]. In the following months of negotiations it became however clear that keeping July 15, 1978 as target date was wishful thinking. On April 27 the EC warned the USA and Japan officially that it would withdraw its offer of tariff cuts if the two states did not improve upon their "disappointing" tariff concessions to Europe. So many controversial issues remained that all that could be achieved by July 13, 1978 was a framework of understanding leaving more questions open than were solved.

Another summit – in Bonn on July 16-17, 1978 – had to provide new impulses for the multilateral trade round. It addressed an instruction to the negotiators to resolve the questions which were still open and to conclude the detail of the negotiations by December 15 of the same year. The principal open questions concerned the selective safeguards clause and the code on export subsidies. Besides, Ambassador Strauss was critical of the – in his view – still inadequate EC concessions in the agricultural sector, but he assessed the chances of reaching agreement as favourable because the politicians of the highest rank had committed themselves to it[23].

In early November the US chief negotiator held more bilateral talks with the EC Commission in Brussels because the Europeans were now feeling under pressure since the waiver of countervailing duties had not yet been extended by Congress. Besides, the Americans had presented in Geneva as late as October a comprehensive documentation on tariff cuts which referred to hundreds of products involving about 10 % of the European exports to the USA. It was assumed in Brussels that the examination of these new proposals would take several weeks. The US proposals on the ASP complex which had been submitted in the summer had not yet been given sufficient study either. Another obstacle to adherence to the target date for the conclusion of the negotiations was the absence of any real progress in the agricultural sphere where disagreements inside the Community acted as a brake. France and Italy resisted concessions as in view of the goods involved the main burden would fall on them whereas the Federal Republic was anxious to compromise on the US demands. The December date passed without clear results while Brussels and Washington laid the blame for the delay on each other. In spite of continuing differences and diplomatic manoeuvring the

[20] Cf. Wireless Bulletin from Washington 137, July 22, 1977, p.21ff.

[21] Ibid., 141, July 28, 1977, p.10f.

[22] Ibid., 17-B, Jan. 24, 1978, p.13ff.

[23] Ibid., 136, July 19, 1978, p.8f.

negotiations did however reach the final stage early in 1979.

A voluminous final package embodying the results of the negotiations was ratified in Geneva on April 12, 1979. The reform of the safeguards system and the issue of export restrictions and charges were for the time being left in abeyance. No agreement was as yet reached on the selectivity in the application of safeguards which had been demanded by the EC[24].

The result of the Tokyo Round was briefly as follows[25]:

Chapter I provided for tariff cuts averaging about 33 % for the entire trade between the industrialized countries, to be put into effect over a period of eight to ten years.

Of more importance were, apart from a Framework of Understanding, the agreements on non-tariff measures and agriculture. They included the following areas in *Chapter III:*

- ☐ Subsidies and countervailing duties,
- ☐ Customs valuation,
- ☐ Government procurement,
- ☐ Technical barriers to trade,
- ☐ Import licensing procedures,
- ☐ Dairy products,
- ☐ Bovine meat,
- ☐ Multilateral Agricultural Framework.

A Framework for Conduct of International Trade was set out in *Chapter IV.* By a so-called "Enabling Clause" it opened the door to the GATT system for differential treatment for developing countries. It also provided for safeguard action for development purposes, safeguard action for balance of payments purposes and an understanding regarding notification, consultation, dispute settlement and surveillance. Canada, the EC, Japan, Sweden and the USA concluded an Agreement on Trade in Civil Aircraft. Ten participating states including the USA, the EC and Japan agreed on a revision of the GATT anti-dumping code.

Outcome Positive for the USA

The appraisal of the negotiating results by the US Administration, and by the US delegation in particular, was in general positive which is not really surprising since it now wanted to steer these results through Congress. According to Alonzo L. McDonald, one of the two deputy special trade representatives, the American agriculture is the great winner. He counted the framework agreement for agriculture, the agreement on subsidies, the two production agreements (on bovine meat and dairy products) and other concessions for various products as plus points[26]. The special trade representative's staff believe that the tariff cuts will apply to agricultural exports of an annual value of US $ 4 bn. The EC alone is expected to lower the import levies on US agricultural exports of US $ 1 bn a year while the USA will reduce its tariffs on an agricultural import volume of US $ 2.8 bn p.a. only.

Overall the Tokyo Round will result for the USA in tariff cuts averaging 35 % in both directions in its trade with the EC and 40 % in its trade with Canada. The duties on US exports to Japan are to be 40 % lower and those on Japanese exports to the USA will be 30 % down. According to estimates by William Cline[27] US exports will increase by US $ 4.5 bn a year as a result of the tariff cuts. The engineering and electrical industries are expected to profit most; their exports are to rise by US $ 1 bn a year. The aircraft, paper, computer, electronics and automobile components industries are also expected to achieve substantial export gains. The effect to the negotiated removal of non-tariff trade barriers has been assessed as follows[28]:

☐ The Code on Government Procurement is estimated to open a market of US $ 20 bn a year under foreign government procurement programmes to American suppliers.

☐ The Code on Technical Barriers to Trade lays down that the procedures for the admission of foreign products must be public and uniform. The US electronics industry expects that this will give it new opportunities in the European market.

☐ The Agreement on Trade in Civil Aircraft removes the 5 % import tax on aircraft in the USA as well as a number of trade obstacles in other countries. Not only the aircraft manufacturers but also the producers of telecommunications equipment and electronics in the USA are hopeful that this will improve their sales opportunities.

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[24] Cf. Handelsblatt, April 12, 1979, p.10.

[25] Cf. General Agreement on Tariffs and Trade, Press Release 1234, April 12, 1979. GATT, the Tokyo Round of Multilateral Trade Negotiations, Report by the Director-General of GATT, Geneva, April 1979.

[26] Cf. Wireless Bulletin 72, April 17, 1979, p.40.

[27] Ibid., p.34ff. The potential effects of various tariff cut formulas have been calculated in the study by W.R. Cline, N. Kawanabe, T.O.M. Krinsjö and T. Williams: Trade Negotiations in the Tokyo Round, A Quantitative Assessment, Brookings, Washington 1978.

[28] Cf. Handelsblatt, May 9, 1979, p.2.

☐ The Code on Subsidies and Countervailing Duties enables the contracting parties to take defensive action when "material" injury is done to industries in the importing country by products exported at artificially low prices. The definition of this "material" injury has caused a controversy in the USA.

☐ The textile industry has secured important concessions. It may, for instance, count on more favourable operation of the world-wide import quotas for its products.

EC Reservations

Brussels on the other hand still has its reservations about the achieved results. After five years, when the first stage of tariff cuts has ended, the EC intends to examine whether it will in the light of the economic situation and the fulfilment of the obligations by its partner countries be able to go on to the second stage. It furthermore intends to put its own concessions only in force when all other states are also in a position to do so and the implementary regulations are found satisfactory. As for the EC concessions in the agricultural sector, the USA and the other states with an interest in increasing their sales in the European agricultural market (Canada, Argentina, Australia and New Zealand) consider them now in spite of all the criticism sufficient to allow them to recognize the principles of the Common Agricultural Policy of the EC, its market regulation system, formally as a reality. This put an end to the apprehensions of long standing in European circles that the US reservations concerning the CAP were so fundamental that they really aimed at the renunciation of this policy which would in the final analysis have involved the very existence of the Community itself. The outcome of the negotiations will not prevent disputes on specific products in the future but can at least clear away the basic suspicion that the objective of the one side was to exclude American products from the European market and of the other to ring down the curtain on the Common Agricultural Policy.

The EC scored another success in that a beginning has been made with the harmonization of tariffs at a lower level. The USA and also Japan committed themselves in the Tokyo Round to lower their highest tariff rates in the next eight years more substantially than the EC which has relatively few high-level tariff rates left.

Although it was thus possible to record positive negotiating results on both sides of the Atlantic, it must not be forgotten that the emphasis was on the removal of trade barriers in conjunction with increased safeguards against misuse of the freer trade and distortion of competition. Liberalization and free trade were no longer the most frequently used watchwords but fair trade, organized free trade, self-restraint and orderly marketing took their place. The free trade protagonists felt therefore no more pleased about the outcome than the protectionists. This fact more than any other marks the advance achieved in the seventh GATT round. It was clearly realized that the world trade system must not be allowed to turn into a free trade jungle or be dominated by "beggar-thy-neighbour" policies but that there was a need for the negotiation on a multilateral basis of cooperative arangements, of compromises to strike a balance between different interests.

The prophecies of trade wars between the industrialized states, and between the USA and the EC in particular, had been proved wrong. The Tokyo Round had shown the feasibility of regulating and bringing order into the trade relations where necessary within a common framework and at the same time preserving and extending free areas in non-controversial sectors. The underlying concept was: "As much free trade as possible and as much protection as politically necessary". As far as protection was concerned, the emphasis was put however on adjustment and not on the conservation of uncompetitive structures. It has thus been confirmed once more that the western industrialized states were basically capable of cooperating in the sphere of trade.

US Dominance

The developing countries had been by-standers; their interests as well as their part in the negotiations were peripheral. The seventh GATT round was primarily a three-cornered affair between the USA, the EC and Japan which handle about half the world trade between themselves. Bilateral discussions between their representatives had given fresh impulses to the talks whenever they came to a deadlock. The starting point and end phase had been predetermined by the time schedule set for the US Administration by the 1974 Trade Act. This made the outstanding role of the USA obvious. The USA did not only commit the other participants to a certain time-scale but provided the major impulses for the Tokyo Round as such.

The USA used the multilateral forum to secure conditions which would improve its opportunities in trade with its major partners and largely succeeded in

this as was shown by the list of US gains from the negotiations. The means which it employed for this purpose were those which it has always traditionally preferred since the Second World War in its dealings with other industrialized states: multilateral negotiations and agreements. But in its own interest as well as in the interest of its partners the USA made sure of the success of the GATT round by threatening a unilateral alternative after a deadline. The USA insisted on new arrangements advantageous to itself, especially for the trade with the EC and Japan who were able to concede such terms on a cooperative basis by multilateral agreement and would, had they failed to do so, have had them imposed on them. The Trade Act contained suitable sets of instruments for both contingencies although that for the offered cooperation had a time limit.

The experience and perceptions of the members of the US Administration concerned with the country's external economic relations pointed in the direction of freer trade, albeit with exceptions as mentioned. They thought that this offer would be of the greatest benefit to all parties. To their negotiating partners was left the choice between response to the offer or deference to unilateral action. Their compliance was thus made the fulcrum of the cooperative attitude of the USA. The EC and Japan acquiesced in the US proposal in their own interests and by granting more concessions than they received made the successful conclusion of the GATT round possible. This result is both a reflection of the asymmetry of the external economic relations between the negotiating parties and a consequence of the – from the US point of view – unfavourable structural trend of the exchange relations which the USA strove to correct.

Participation of US Interest Groups

The US Administration took up the demands of those sections of the economic sub-system which had been put at a disadvantage by foreign competition and made their influence felt in the political system, and passed them on to the foreign trading partners. It not only adopted the substance of these demands but enabled the economic sub-system over its whole compass to participate directly in the round of negotiations through a ramified system of advisory committees, as was provided by the Trade Act. In addition to an Advisory Committee for Trade Negotiations consisting of 45 representatives of all sectors of the economy, an Industry Policy Advisory Committee, an Agricultural Policy Advisory Committee and a Labor Policy Advisory Committee were set up in 1975. Besides, 27 Industry Sector Advisory Committees, 8 Agricultural Technical Advisory Committees and 6 Labor Sector Advisory Committees were brought into being, so that there were altogether 45 committees which advised the US Administration on various aspects of the multilateral trade negotiations[29].

This arrangement ensured a direct influence on the negotiating position as well as a direct flow of information between the business world and the Administration and Geneva delegation. The latter found that this greatly complicated its coordination function but provided a direct feed-back link with domestic interest groups and thus a means of taking soundings on what compromise margins were acceptable to them. Against the structural background of the decision-making system in the USA as far as it affects the foreign trade it seemed sensible to bring the economic groups in this way into the negotiating process because it forced the delegation all the time to bear the need for an internal consensus in mind. It had also always to consider whether the package wrapped up in the negotiations was capable of receiving the consent of Congress. The competent committees of the House of Representatives and the Senate had each assigned five of their members to the delegation as official advisors. This kept the negotiators from accepting arrangements which had no chance of being endorsed by Congress. Although it did not make Congress consent certain, it made it very likely.

On the other hand it had the effect of confronting representatives of vested interests and Congress who usually took their cue from the internal situation directly with the positions of the partner states and inducing them thus to include the international acceptability of proposals among the variables of their calculations. This made the conduct of the negotiations more difficult for the US delegation but did not rule out a satisfactory result and greatly improved the chances for an internal consensus as was indeed confirmed by the adoption of the negotiating results by clear majorities of both houses of Congress on July 23, 1979[30].

[29] Cf. Oversight Hearings on Trade Policy 1976, p.493, and Background Status of the Multilateral Trade Negotiations I, 1975, p.32ff. Lists of the committee members are found in: 95/1 U.S. Congress, Senate, Committee on Governmental Affairs, Subcommittee on Reports, Accounting and Management, Index of Membership of Federal Advisory Committees, Washington GPO 1977.

[30] The Senate gave its assent to the 1979 Trade Agreement Act with 90 votes to 4 and the House of Representatives with 395 votes to 7.