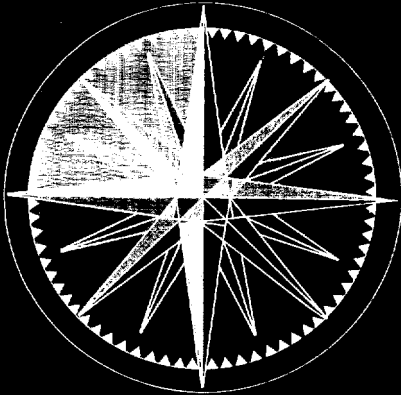


SECRET

Case 2006/12/27 : CIA-RDP79-00927A00440009000245 April 1964

OCI No. 0328/64A
Copy No.



SPECIAL REPORT

GATT AND THE KENNEDY ROUND

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

MORI/CDF

NO FOREIGN DISSEM

SECRET

GROUP 1 Excluded from automatic
downgrading and declassification

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

DISSEMINATION CONTROLS

(This section is intentionally blank.)
This document **MUST NOT BE RELEASED TO FOREIGN GOVERNMENTS**. If marked with specific dissemination controls in accordance with the provisions of DCID 1/7, the document must be handled within the framework of the limitation so imposed.

SECRET

24 April 1964

GATT AND THE KENNEDY ROUND

The Kennedy Round negotiations to reduce trade barriers, opening in Geneva on 4 May, not only have high economic stakes but could also have important political implications for Western solidarity. The negotiations--in particular the US effort to keep the Common Market open to American farm exports--will be handicapped by differences among the Common Market countries themselves over issues of farm policy. The likelihood is for prolonged stalemate over agricultural questions, with a possibility that failure to get agreement on these questions could torpedo the rest of the conference. Barring this contingency, the prospect appears favorable for world-wide reductions of industrial tariffs, although the average depth of cut will fall short of US objectives.

Background

The General Agreement on Tariffs and Trade (GATT), which came into force in 1948, has a good record of achievement in working out multilateral tariff concessions. Five of the plenary conferences of GATT to date have been so-called rounds, which have affected tariff adjustments on a total of almost 65,000 items.

In the 1961-63 Dillon Round, the Common Market agreed to reduce the projected level of its tariff wall in exchange for reciprocal concessions by other GATT signatories. In all, some 4,400 concessions were negotiated during this round, covering an estimated five billion dollars, worth of trade.

Despite the accomplishments of the Dillon Round, many governments remained uneasy that the progress by the Six toward

full customs union might work eventually to the serious disadvantage of the Common Market's traditional trading partners. The measure of US interest is the volume of US trade with the countries of the European Economic Community (EEC). These countries have accounted in recent years for about a sixth of US foreign trade; well over a fifth of US farm exports go to the Community.

The Trade Expansion Act, which Congress passed in October 1962, set the stage for the sixth round--the Kennedy Round--of tariff reductions. This act gives the President broader authority in negotiations to reduce tariffs than he has ever had before, with a view particularly to getting reciprocal concessions from the Common Market. One of the act's major objectives is to help preserve the economic basis for Atlantic cooperation, which requires a

SECRET

SECRET

GATT MEMBERSHIP

CONTRACTING PARTIES (62)

Australia	Dahomey	Japan	Senegal
Austria	Denmark	Kenya	Sierra Leone
Belgium	Dominican Republic	Kuwait	Spain
Brazil	Finland	Luxembourg	South Africa
Burma	France	Malagasy Republic	Southern Rhodesia
Cameroon	Gabon	Malaysia	Sweden
Canada	Germany, West	Mauritania	Tanganyika
Central African Republic	Ghana	Netherlands	Togo
Ceylon	Greece	New Zealand	Trinidad and Tobago
Chad	Haiti	Nicaragua	Turkey
Chile	India	Niger	Uganda
Congo (Brazzaville)	Indonesia	Nigeria	United Kingdom
Cuba	Israel	Norway	United States
Cyprus	Italy	Pakistan	Upper Volta
Czechoslovakia	Ivory Coast	Peru	Uruguay
	Jamaica	Portugal	

COUNTRIES THAT HAVE ACCEDED PROVISIONALLY (6)

Argentina	Switzerland	United Arab Republic
Iceland	Tunisia	Yugoslavia

COUNTRIES PARTICIPATING IN SOME OF THE GATT WORK UNDER SPECIAL ARRANGEMENTS (2)

Cambodia	Poland
----------	--------

NEWLY INDEPENDENT COUNTRIES APPLYING GATT RULES PENDING FINAL DECISIONS ON THEIR FUTURE COMMERCIAL POLICY (5)

Algeria	Burundi	Congo (Leopoldville)	Mali	Ruanda
---------	---------	----------------------	------	--------

640416 2

Common Market tariff that is tolerable to the US and to the countries of Western Europe outside the EEC.

Agriculture

The record of previous GATT rounds is limited largely to tariff reductions in industrial items. International differences over agriculture have been difficult to reconcile, since nearly every major government is committed politically

to support domestic farm incomes.

Differences over agriculture have been reinforced by recent economic and political trends in Europe. A technological revolution in European agriculture has caused farm production in the EEC to expand some four times faster than the rate of population growth. Farm interests in France particularly, which has the most productive agriculture

SECRET

in the Community, now are seriously concerned about emerging problems of surplus disposal. When the US and other traditional suppliers of farm products to the EEC try to get assurances in the Kennedy Round of continued access to the Common Market, they will run up against French aspirations to make France the breadbasket of the EEC. A common market that is not virtually self-sufficient in food, De Gaulle declared last July, is not a common market.

A further complication for the Kennedy Round negotiations on agriculture is the unfinished business of agricultural integration in the Common Market. Integration hinges on the replacement of national support prices by single Community-wide support prices for grains and other agricultural products. The level of protection to Common Market farmers will be a derivative, in large part, of the Community-wide support prices. The US and other traditional suppliers therefore want the Common Market countries to agree on relatively low supports.

The Six are currently at loggerheads over a proposal by the EEC Commission that would set the Community grain price between the low French and high German support prices. This would make German agriculture less profitable and enlarge the Community market for the more efficient French farmers. EEC officials want to get this issue settled within the Community before the Common Market under-

takes commitments on agricultural commerce at Geneva. However, the German Government, with an anxious eye cocked on the farm vote, is resisting the Commission's proposal. Hence, the 1965 elections in Germany come at a bad time for the Kennedy Round.

Industry

The French feel that German industry has been the principal beneficiary of the Common Market's success in lowering industrial tariffs on intra-Community trade. It is time, they think, for Bonn to reciprocate by conceding to France on agriculture. The continuing failure of the French to get satisfaction from the Germans on the issue of the grain price could jeopardize the whole Kennedy Round. At his press conference in January, De Gaulle expounded at length on the necessity of prior agreement on a common policy for EEC agriculture. Only after this, he declared, could the Six "tackle the negotiations with other countries, notably America, on the question of external trade."

In the context of his remarks, this statement may have implied only French reservations about the Kennedy Round negotiations on agriculture. Taken literally, however, the words convey a warning that the French could feel it necessary also to obstruct the negotiations to reduce industrial tariffs.

SECRET

SECRET

Whatever the French course of action, the arduous preparations during the past year in GATT working groups for the Kennedy Round leave no doubt that the negotiations on industrial tariffs will be tough. US tussles with the Common Market on the subject have revolved around the issue of "disparities" --instances where the difference between the US and the EEC tariff rates on a given product is large. Although US and Common Market tariff rates are comparable on the average, the US has more rates in very high and very low brackets.

The ministerial meeting in Geneva in May 1963, which tried to set the ground rules for the Kennedy Round, could not work out a satisfactory compromise for dealing with disparities. The meeting did adopt a formula which accorded in general with the US proposal for 50 percent across-the-board cuts in tariffs by the contracting parties of GATT. It was specified, however, that the formula would not apply in the case of "significant" disparities, which would instead be subject to some rule for lopping off the "peaks." The issue is complicated by the interests of third countries, and the bargaining to work out a rule for determining "significant" disparities is taking a much longer time than was originally expected.

In addition to the disparities roadblock, the Kennedy Round must surmount the issue of "exceptions"--the lists of

commodities which the contracting parties to GATT will propose to exempt from the negotiations. If the exceptions are numerous, the tariff reductions will average far less than the 50 percent targeted by the US. Two months ago, a French official offered his "personal view" to a US Embassy officer in Paris that the best way out of the Kennedy Round complexities was to aim for a lower percentage of tariff reductions.

De Gaulle's Shadow

In January 1963, President de Gaulle slammed the door on British accession to the Common Market. His proclivity for differentiating between European and Anglo-Saxon interests seems also to underlie some of the French leader's reservations about GATT and the Kennedy Round.

Among his more extremist supporters, the attitude takes the form outlined by a Gaullist member of parliament in November to an audience of German industrialists. The US, in this exposition, had been accustomed to seeing Europe in the role of permanent petitioner. With Europe's economic resurgence, the Americans had come to realize that they "are up against a dangerous rival." The US was accordingly embarked on a "counteroffensive," one feature of which was the Kennedy Round, to keep Europe "a victim of American production."

The tactical implications of this attitude were illuminated

SECRET

last year in a report by a member of the French Parliament. The Common Market is still a "fragile structure," he said, and the Europeans will "play for time" before opening serious negotiations with the US to lower trade barriers. He foresaw only difficult contacts between the US and the EEC pending the "maturity of European institutions."

This sort of commentary has generated some apprehensions that De Gaulle might decide at some point to sabotage the Kennedy Round altogether.

Paris, however, does not yet rule out the possibility that the Kennedy Round can be turned to some French advantage. Last fall, a ranking official in the French Foreign Ministry tried to enlist US support in pressing West Germany to move forward toward a common grain support price for the EEC. In making his appeal for US assistance, he held out the possibility that the EEC would then be ready to work out a world-wide trade agreement on grain in the context of the Kennedy Round. The French feeling seems to be not that some achievement in the Kennedy Round is impossible, but that it must take second place to the consolidation of French economic interests in the European Community.

The Other Five

For all his influence, De Gaulle alone does not set the tone of EEC policy. The first

tariff reductions on intra-Community trade, which went into effect on 1 January 1959, were extended in large part to all GATT signatories as well. The liberal spirit manifested by this decision remains strong in the EEC and in favor of the Kennedy Round objectives.

Despite some misgivings about lowering trade barriers on farm products, the prevailing sentiment within Benelux is for an "outward-looking" Community. In the aftermath of the collapse of the negotiations for British accession to EEC, Benelux has been uneasy about a further setback to the liberal forces in the Community if the Kennedy Round fails.

Italy presents a more complex picture. A relatively high-tariff country in past years, it is wary of bargaining away tariff advantages for its newly developed industries. A few of the big firms look increasingly to market opportunities abroad, but in general Italian industry is not yet so large as to feel the urgent need of sales outlets beyond the markets offered by the EEC. The adverse trend in Italy's balance of payments also reinforces protectionist sentiment. Nevertheless, the Italians have given strong support to the Atlantic partnership and are prepared to make concessions in the Kennedy Round in the interests of preserving Western solidarity.

The relatively large share of German industrial output sold

SECRET

outside the EEC disposes Bonn to favor world-wide reduction of industrial tariffs. During his visit to De Gaulle in February, Chancellor Erhard obtained French professions of readiness to approach the Kennedy Round in a "positive spirit." Later, however, Erhard privately admitted to "gnawing doubts" about De Gaulle's true intentions. Such doubts may derive from uneasy feelings that German obduracy on farm policy could be charged with a good deal of the blame if the French throw monkey wrenches into the negotiations. The German leader understands that obstruction by Bonn of EEC progress toward a common policy for agriculture gives De Gaulle all the reason he need to be recalcitrant in the Kennedy Round.

The Less Developed Countries

GATT is generally unpopular among the less developed countries, which are skeptical about its ideals of freer trade. Their insistent appeal has been for a trade organization that would promote rules committing the industrialized countries to buy more at higher prices from Asia, Africa, and Latin America, while permitting trade restrictions in the less developed areas for the protection of domestic industries.

Communist propaganda has made capital of the widespread antipathy to the free market forces that GATT encourages. As one Communist review of GATT

put it, "It has been repeatedly shown by practice that both the free operation of market forces and free competition invariably strengthen the positions of the industrially more advanced participants and weakens those of the economically developing countries and agricultural producers." The challenge from the left could sharpen if the less developed countries come away deeply dissatisfied by the results of the Kennedy Round.

The indictment of GATT is transparently unfair in many of its points. The General Agreement already provides for some special preferences to the less developed countries. In addition, working groups have been set up in GATT to study means of improving the export earnings of these countries. Most of the contracting parties to GATT voted last year to approve a so-called Action Program, calling for such measures as the abolition of import duties on tropical products and for the progressive reduction by the industrial countries of tariffs on the manufactures of the less developed countries. A good portion of the Kennedy Round negotiations will be directed toward getting agreements to implement these recommendations.

Outlook

The executive secretary of GATT once expressed concern that the General Agreement might break under the strain if the Kennedy Round should fail. The remark

SECRET

reflected his anxiety over the implications of failure for Western solidarity. The less developed countries would be further alienated. There would be a hardening of the economic boundary lines separating the Common Market from the British and other West European governments. Fresh fuel might be added to the controversy within the EEC between the so-called inward-looking elements and the more liberal forces, with jeopardy to the Common Market's progress toward economic and political union.

The less developed countries will not get all they think is their due in the Kennedy Round, although they will probably win concessions without undertaking corresponding obligations of reciprocity. In the main area of negotiations --trade among the economically advanced countries--the Common

Market countries are pivotal; much depends on their ultimate ability to break out of their own impasse with respect to Community policy on farm prices. They may not be able to do this until after next year's elections in Germany.

This means that the Kennedy Round may have to take a good deal longer than the ten months needed to negotiate the Dillon Round concessions. Once the Community's farm policy is clearly defined, however, a major reason for French obstructionism will have been eliminated. De Gaulle will still be a strong influence for caution in reducing trade barriers, and the EEC's agricultural trade with foreign suppliers will remain the knottiest of the issues in the Kennedy Round. The prospects will nevertheless be improved for a fairly successful outcome of the negotiations. (SECRET NO FOREIGN DISSEM)

* * *

SECRET

Approved For Release 2006/12/27 : CIA-RDP79-00927A004400090002-5

SECRET

Approved For Release 2006/12/27 : CIA-RDP79-00927A004400090002-5

SECRET