
THE VIEWPOINT OF THE GOVERNMENT ON THE GATT AND THE POLITICAL AND ECONOMIC IMPLICATIONS THEREOF ON THE COUNTRY AND AGRICULTURE

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INTRODUCTION TO THE GATT AND THE URUGUAY ROUND

The General Agreement on Tariffs and Trade, the so-called GATT, is an international agreement as well as an international organisation. The GATT was established in 1948 and one hundred and six countries are presently members of this organisation. The member countries account for about 90 per cent of current world trade. One of the main objectives of GATT is the securing of a predictable international trading environment. The rules of GATT are therefore specifically formulated in order to promote free and fair international trade.

An interesting aspect of the GATT is that it operates in three separate ways.

In the first instance it provides a set of rules governing international trade; secondly, the GATT acts as a forum for trade negotiations between the member countries; and lastly, as an international "court" in which governments can utilise the dispute settlement procedures of GATT to combat unfair trade practices. South Africa has already on two occasions used this dispute settlement mechanism successfully.

Not many people are aware of the fact that South Africa is not only a founder member of the GATT, but has all along been a very active participant. As a member of the General Agreement, South Africa is committed to the principles in regard to an open and free multilateral trading system. Since 1948, seven rounds of multilateral trade negotiations with a view to further liberalising international trade and in which South Africa actively partici-

pated, have been concluded. In September 1986, the eighth round, the so-called Uruguay Round was launched in Punta del Este in Uruguay.

The Uruguay Round is by far the most complex and ambitious programme of negotiations ever undertaken by any international economic organisation. There are fifteen different negotiating topics and the fact that the topics are interlinked has complicated matters.

Not only were all the traditional GATT issues, such as tariffs and subsidies, included in the agreed agenda, but also new issues. These new issues include, among others, firstly the trade-related aspects of intellectual property rights, secondly the trade-related aspects of investment measures and thirdly the services sector. With regard to the latter a complete new agreement on trade in services has to be negotiated. After more than six years of intensive work and negotiations, it seems that the Uruguay Round now stands poised for either a successful conclusion or for sinking into oblivion. The prolonged and intensive negotiations, some of which were not very successful, culminated in the formulation of the Draft Final Act of the Uruguay Round. This 450 page document, also known as the Dunkel text, was drafted by the Director-General of the GATT, Mr Arthur Dunkel, in an attempt to reconcile the divergent viewpoints of the various countries. The document in fact contains a comprehensive set of 28 separate agreements.

Taken as a whole, the Dunkel text represents the most substantial overhauling of the multilateral trading system since the establishment

of the GATT in 1948.

It seems as if the acceptance of this document in the foreseeable future could have the effect of breathing new life into the present sluggish world economy. It is thus no accident that, despite the difficulties involved, the majority of governments around the world appears to be committed to a quick conclusion of the Uruguay Round based on the parameters set out in the Draft Final Act.

However, when the Uruguay Round was on the verge of being concluded, it ground to a halt due to the now well known dispute between the European Community and the United States over subsidies relating to agricultural products.

Although this dispute was settled in a way, in terms of what is called the Blair House agreement, negotiations have not yet recommenced. This agreement was concluded between the two parties after protracted negotiations which, at one stage, threatened to scupper the Uruguay Round itself. It is therefore, quite obvious that what is needed now to get the ball rolling again is a political breakthrough by these two major players.

President Clinton has recently reiterated his support for the rapid conclusion of the Round and has indicated to the President of the European Community, Mr Delors, that he is ready to request the US Congress to extend his so-called "fast-track" negotiating mandate till the end of 1993. The current mandate has already, in effect, expired in March 1993. The "fast-track" mandate allows the United States Congress to say either "yea" or "nay" to the package as a whole, which was presented by Mr Dunkel in the form of the Draft Final Act. The "fast-track" mechanism does not allow Congress to effect any amendments to a proposed international agreement.

In the meantime, matters are somewhat complicated by the bellicose statements, by both the EC and the US, on issues like aircraft subsidies and government procurement. Conflicting statements by US officials on whether the US will honour the Blair House Agreement are also adding to the uncertainty.

The outgoing French Government was also very critical of the terms of the Blair House Agreement. The French accused the EC Commissioners involved in the negotiations with the US of exceeding their negotiating mandate. Moreover, the new French Government has indicated during the recent election campaign that it intended to veto the Agreement when it comes up for voting in the Community Council of Ministers.

Bearing all these circumstances in mind, it is no wonder that the Round is currently in the doldrums. Nevertheless, it is expected that once the Clinton Administration has obtained an extension of the fast-track mandate, negotiations would once again resume.

This then very briefly is the present state of affairs as far as the Uruguay Round is concerned.

AGRICULTURAL TRADE ISSUES

I would now like to turn to a more specific issue that is of interest to you, namely that of agriculture.

Agriculture, a major stumbling block in the way of the successful conclusion of the Round, was since the inception of the GATT more or less "excused" from the application of the rules of the game. To bring agriculture, with all the political and cultural baggage that goes with it, into the fold of the GATT, and that within only one Round, is no mean task.

Agricultural trade issues, whether relating to domestic support, export subsidies, border measures, state trading, or to health and sanitary regulations, have become the dominant theme in international trade disputes. Almost half of the dispute settlement cases brought before the GATT dispute settlement bodies since 1948, have concerned agricultural products. Since 1987 the number of agricultural disputes has increased dramatically.

There are various reasons for the need for reform in international agricultural policies. In the first instance agricultural subsidies are expensive and they also create serious distortions in world markets for farm products.

Furthermore, subsidies act as a drag on overall economic growth. It is estimated that present agricultural policies in industrial countries alone have cost taxpayers about US \$250 billion in 1990. Ironically enough, a significant part of the cost of national farm programmes is caused by offsetting the effects of agricultural policies of other countries.

Secondly, the unresolved agricultural disputes impinge upon the credibility of the GATT negotiation process.

Furthermore, the Uruguay Round may be the last chance to reform the European Community's Common Agricultural Policy before the Community's geographic sphere is extended to eventually form the European Economic Area. Moreover, it is expected, that the countries of Central and Eastern Europe will also join this Economic Area within the next ten years.

In the final instance, substantive results are needed in the Uruguay Round in regard to agriculture in order to obtain the support of the 14 largest agricultural exporting countries regarding the conclusion of agreements in the inter-linked areas such as services and intellectual property rights. The support of developing countries is also essential in this regard.

It is noteworthy that a vast number of participants in the Uruguay Round have made agricultural reform their main priority.

The objectives of the negotiations are not only to achieve greater liberalisation of world trade in agriculture but also to subject agriculture to strengthened GATT rules and disciplines. The objectives also imply a restructuring of the rules pertaining to world trade in agricultural products.

The proposed restructuring is to be based on requirements relating, amongst others, to market access, domestic support and export subsidies for agricultural products.

Referring firstly to **market access**, it is evident that the essential element of the liberalisation of market access is the universal commitment in regard to tariffication. Thus, all border measures other than ordinary customs duties,

such as quotas, variable import levies, minimum import prices, discretionary licensing, non-tariff measures maintained through state-trading enterprises and voluntary export restraints, are to be converted into tariffs, the so-called tariffication exercise.

All agricultural tariffs, including those resulting from tariffication, are to be reduced by 36 per cent over a period of six years as from the coming into operation of the Final Act.

I do not intend going into any details concerning **domestic support measures**, but should mention that the Draft Final Act defines particular domestic support measures which are exempted from reduction commitments. All other domestic support measures are to be reduced by 20 per cent over the six year period which I have mentioned.

Agricultural export subsidy practices are to be subjected to budgetary outlay commitments as well as commitments with regard to quantities of agricultural exports subsidised. Outlays and quantities are to be reduced, during the six year period, by 36 per cent and 24 per cent, respectively.

The Department of Trade and Industry has prepared a tariff offer on agricultural products in close consultation with the Department of Agriculture and organised agriculture. The offer has been submitted to the GATT and bilateral negotiations with interested contracting parties can now be conducted. The fact that South Africa has submitted an offer has the further advantage that we can now obtain access to similar offers by other contracting parties.

South Africa simply does not have the resources to subsidise agriculture to the same extent as some of our competitors. It is therefore of vital importance that the playing field be levelled, in order for South Africa to reap the full benefit from its agricultural exports.

South Africa has always prided itself on the quality and price of its agricultural products on world markets and it is expected that a successful conclusion of the Round could result in improved market access for our products. Another consequence could be an improvement in the competitiveness of our

products.

However, there is also the other side of the coin to be kept in mind. On our part we will have to facilitate market access to our own market. To this end and in order to meet the relevant Uruguay Round requirements, the Department of Agriculture, in close co-operation with the Department of Trade and Industry and the Board on Tariffs and Trade, has already started with the process of gradually replacing quantitative restrictions on the import of agricultural products with customs tariffs.

TARIFFS ON INDUSTRIAL PRODUCTS

In view of the fact that fertilizer is classified as an industrial product and not as an agricultural product, I would like to apprise you of the Uruguay Round requirements regarding industrial products.

Due to the success of previous GATT rounds in lowering customs tariffs on industrial products, many had believed at the start of the Round that tariff issues would be of less importance. In fact, the opposite was true - tariffs once again became the backbone of the very important market access negotiations.

The target set for industrial tariff reductions in the Round is a 33 per cent trade weighted average reduction across the board as well as the binding of all tariffs against increase. The agreed tariff reductions are to be implemented in five equal annual reductions.

Our tariff offer, which was submitted to GATT after extensive consultations with the Board on Tariffs and Trade and the private sector, if implemented, will eventually result in a trade weighted average reduction in industrial tariffs of around 23 per cent, and 55 per cent of the present more than 11 000 tariff lines will then be bound against increase above certain levels. The latter percentage includes existing tariff bindings amounting to 16 per cent of total tariff lines. The further effect of the offer would be that, with regard to the tariff lines affected, except for motor vehicles, the maximum tariff rate at the end of the five year period would not exceed 30 per cent *ad valorem*.

From the point of view of tariffs the South African fertilizer industry is currently largely liberalised and is in effect not protected by way of either tariffs or non-tariff measures. Although a formula duty is still applicable to urea, namely 36,5c per kg less 100% of the fob-value, this duty has, at current fob-values, virtually no protective value due to the effect of inflation during the preceding years.

By virtue of South Africa's provisional offer, formula duties will have to be replaced with *ad valorem* duties at the conclusion of the Round. To this end, urea is provisionally offered at 30 per cent *ad valorem*. Most of the other fertilizer products are offered at free of duty.

Certain fertilizer products would not be GATT bound at the conclusion of the Uruguay Round, such as other animal or vegetable fertilizers, ammonium nitrates, superphosphates and fertilizers in tablets or similar forms or in packages of a gross mass not exceeding 10 kg. The *ad valorem* duties on the above products are currently also free.

As a consequence the current protective position of the fertilizer industry would not be affected by the South African tariff offer at all, should that offer be implemented. Duties currently applicable are in all cases equal to or lower than the offered binding rates.

As the tariff negotiations have not been concluded, it is almost impossible, at this stage, to properly evaluate the proposed tariff reductions by our trading partners and the impact it might have on our exports. However, the benefits accruing to South Africa should be substantial.

Our proposed reduction of industrial tariffs should not be seen as merely submitting to negotiating pressures. There is another side to it. It is generally accepted that the long overdue South African economic recovery will have to be exported and tariff reductions conceded in return by our main trading partners should result in increased market access for our much needed exports.

IMPORTANCE OF GATT AND THE POLITICAL AND ECONOMIC IMPLICATIONS ON SOUTH AFRICA

The South African Government has always viewed its membership of the GATT as of the utmost importance. This is evidenced by the fact that South Africa as a founder member of the organisation has, since 1948, actively participated in all rounds of multilateral trade negotiations.

Why is the GATT important?

GATT membership provides certain distinct advantages.

The most important advantage of GATT membership is the favourable export access South Africa enjoys in other GATT member countries due to the "most-favoured-nation" or mfn treatment. This "most-favoured-nation" treatment is when one country negotiates market access with another country bilaterally, all other GATT contracting parties also enjoy the same benefits. "Most-favoured-nation" treatment prevents GATT members from discriminating against each other in favour of other countries.

The GATT further provides a forum for international trade dispute settlement. This allows for (non-politically motivated) trade restrictions to be addressed and in the case of a failure of bilateral consultations the GATT provides for the establishment of a neutral panel to investigate the problem.

With trade blocks being formed throughout the world small countries like South Africa could find it increasingly difficult to compete in those markets due to the free trade agreements and bargaining power within those markets. South Africa doesn't fall into any natural trade block and the GATT is the only recourse which a small country has to protect its interests against unfair practices of trade blocks.

The GATT's trade policy review mechanism also provides South Africa with an inside look into the trade policies and practices of its main trading partners and those of other GATT contracting parties. This transparency affords

South Africa the opportunity to learn from the experiences of other countries and to identify opportunities in foreign markets.

The GATT is, furthermore, a non political organisation and South Africa's vote counts just as much as those of the US and EC.

The GATT exists to ensure that trade relations among governments provide stable, secure and open trading conditions which in turn encourage business confidence.

The GATT seeks to ensure that the world's exporters have the chance to compete with each other on fair terms.

The GATT is in essence the rules of world trade. Without these rules, world trade would probably have been much more restrictive.

No certainty whatsoever exists with regard to the finalisation of the Uruguay Round. In the event of the successful conclusion of the Round, the resultant process of trade liberalisation in South Africa will have to be managed very carefully and with circumspection, taking full cognisance of the economic and other realities. Government would not blindly comply with the demands of the Round but the actions taken by our major trading partners in this connection will be fully taken into consideration. South Africa would rather follow the conduct of other contracting parties than taking the lead.

The recently published Normative Economic Model strongly emphasizes the importance of future industrial development. Furthermore, the Model states the necessity that those industrial sectors with growth potential should be competitive internationally. It then identifies the removal of the anti-export bias and the rationalisation and lowering of the levels of tariff protection, as two elements of a strategy to reach this goal.

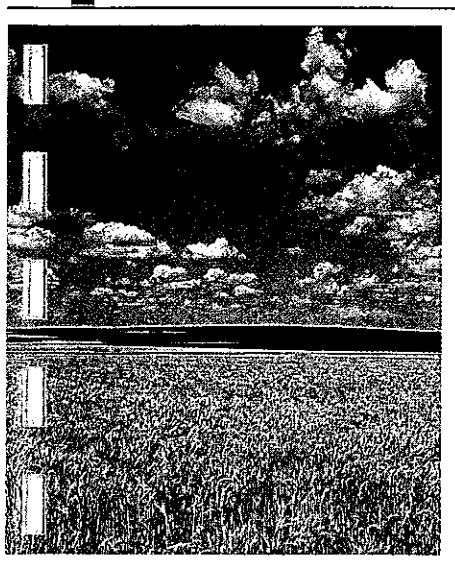
It is important to note that tariff liberalisation could therefore be considered from two viewpoints, ie the Uruguay Round as well as the Normative Economic Model. Fortunately, the two initiatives run parallel to each other and in the same direction so that ultimately they ought to coincide.

In conclusion I must point out that under the proposed Draft Final Act of the Uruguay Round, all member countries would be faced with one of two options. A country could either accept the results of the Round as a whole and be part of the world multilateral trading system, or decline to accept and find itself out in the cold and out of the GATT. No provision is

made for reservations or the exclusion by participants of any of the agreements.

It stands to reason that South Africa would prefer to have reasonable access to overseas markets which naturally implies choosing the first option, namely accession to the proposed Uruguay agreement.

RYKDOM *...uit die natuur!*



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