

MEMORANDUM TO CABINET BY THE HON. MINISTER OF
COMMONWEALTH AND FOREIGN AFFAIRS AND THE HON.
MINISTER OF TRADE, INDUSTRY AND AGRICULTURE

G.A.T.T. Tariff Negotiations known as the
"KENNEDY ROUND"

Hon. Members are being asked to agree to Malta's full participation in the KENNEDY ROUND of Tariff Negotiations being approached in the manner set forth hereunder:

1. The countries participating in the General Agreement on Tariffs and Trade (GATT) had recognised that as more and more countries achieved independence, the economic difference between the "developed" and the "underdeveloped" countries became more pronounced.

2. The newly emergent countries were largely "underdeveloped". They were faced with the problem that whereas they were willing and able to transform the nature of their economy from one based on agriculture to one based on industry, their manufactures were being kept out of the "developed" countries by means of high customs duties or other restrictions.

3. The "developed" or "industrialised" countries desired to provide a solution to this problem and a suggestion eventually emerged that each country's customs duties should be reduced by 50% on all items. At the same time they intended to have a look at the restrictions which they proposed to maintain to see whether and how far these could be removed.

4. The suggestion met with a wide measure of approval, but it became evident immediately that it could not be put into practice without certain conditions. These conditions can be summarised as follows:-

- (a) that a country should have the right to withhold the reduction in respect of certain items;
- (b) that a country would accept to implement the full reduction only if the other countries did the same;
- (c) that an "underdeveloped" country should not be expected to contribute to the same extent as a "developed" country.

5. The condition at (c) was generally acceptable. Although the "underdeveloped" countries were expected to contribute something, their contribution would be much lower than that of "developed" countries. On this basis all "underdeveloped" countries were asked whether they wanted to participate, and in the affirmative, to list the

/products

products in which they were interested from an export point of view.

6. Malta gave an affirmative answer and submitted to G.A.T.T. a list containing 48 products of which 15 were agricultural and 23 industrial (See Appendix "A").

7. The condition at (a) was then taken up and the "industrialised" countries were asked to indicate those items on which they intended to withhold the reduction. This produced several lists containing industrial products only, since no country was prepared to consider the agricultural sector before the E.E.C., who had been tied down by difficulties in this sector, were in a position to solve their difficulties and allow consideration to be given also to agricultural products.

8. The condition at (b) could not be tackled since it depended on the outcome of the bilateral talks which each party had to have with its partners. These bilateral talks would eventually bring out how much each country was prepared to give in return for what it would be receiving.

9. The lists referred to in paragraph 7 were made available to Malta following which a study was made in the light of Malta's special relationship with the United Kingdom and her desire to gain access to the markets of other European countries. Malta's interest was two-fold; on the one hand she wanted to retain the benefits of Commonwealth Preference and on the other she desired to obtain similar benefits elsewhere.

10. These two conflicting aims could be achieved by insisting (a) with the United Kingdom to withhold the reduction on as many items as possible and (b) with the other countries to grant the reduction on as many items as possible. The reasons for this approach are evident, for if the United Kingdom should grant reductions on those products which we normally sold in that market, Malta could lose the preferential benefits which she enjoyed in that market. (The same considerations applied to the other "developed" Commonwealth countries). If the rest of the "developed" countries should not grant the full reduction on all products in which we were interested, we could not obtain benefits in these countries.

11. In the case of the United Kingdom we found that they were prepared to grant reductions on all items in which we were interested except Cotton yarns, Embroidered motifs, Denim jeans, Infants' wear and Shirts. This meant that, except for the products mentioned, we were going to lose the preferential margin in the United Kingdom market and the likelihood was that the "developed" countries would eventually capture our share of the United Kingdom market.

12. The losses envisaged in paragraph 11, which could be considerable, keeping in view that the United Kingdom was our main market, did not constitute, however, an insurmountable obstacle to Malta's participation provided it could be ensured that equivalent benefits were at least gained in other markets amongst which the most important are the E.E.C. and E.F.T.A.

13. As regards the E.E.C. it was found that in respect of 24 products, in which we are interested, they are prepared to grant the reduction and this compensates in part for the losses to be sustained in the United Kingdom. As regards E.F.T.A., on 23 products, at least, they are prepared to grant the reduction and this again compensates for the losses which are likely to be sustained in the United Kingdom.

14. Appendix "B" sets out in tabular form the gains and losses expected. This Appendix shows only the industrial products since the agricultural offers cannot as yet be communicated to us once Malta has not made an "offer" and therefore she is still considered as not fully participating in the Kennedy Round. From a perusal of this Appendix it is evident that the losses envisaged are more than compensated by the gains expected to be made. The real balance, however, has to be struck between the losses in the United Kingdom market, where we are already established, and the "gains" we hope to achieve in other markets, where we are still not yet established. Another consideration which should be kept in view is that, in the case of the U.S.A. and Japan, the "gains" could only be theoretical since the markets are practically unattainable to us because of distance. A balance of "gains" and "losses" between the United Kingdom and E.E.C./E.F.T.A. would therefore be more realistic.

15. Meanwhile bilateral talks and negotiations are going on and some countries, like Malta, who have not yet sent their "offer" have been asked to do so, so that the target dates set for the finalisation of the negotiations could be met.

16. In order that Malta may make an offer she has to be prepared to give any or all of the following:-

- (a) reductions in her customs tariffs;
- (b) elimination of import restrictions;
- (c) removal of commonwealth preference;
- (d) binding of present customs tariffs.

Everyone of the methods mentioned above would certainly constitute a great sacrifice on the part of Malta and this for obvious reasons. The best alternative open to us would seem to be that our offer should be in the nature of an "initial" one based on the following three arguments, viz:

- (i) that Malta has few import restrictions;
- (ii) that customs duties have been considerably reduced unilaterally when the new Customs tariff was published in August 1964;
- (iii) that Malta is contributing indirectly through the loss of preference which she has to bear in the United Kingdom market which is her main outlet for exports.

17. Malta has to make an offer in any case before she

can be considered as a full participant in the Kennedy Round and the offer could take the form indicated in (i), (ii) and (iii) of paragraph 16. This would afford Malta the right to receive full details of any offers made (including the agricultural sector) and an opportunity to contact the several other participants with a view to bargaining for additional or greater benefits.

18. There is a possibility, however, that Malta's offer as suggested in paragraph 16 would not be considered as a "concrete" offer. In this eventuality it would be necessary to make a "supplementary" offer suggesting our preparedness to reduce or remove some of the remaining preferential margins on certain products imported from E.E.C. or E.F.T.A. sources or to bind existing customs tariffs. Admittedly, this would involve a reduction in Customs receipts which cannot be gauged exactly. The loss, however, should be considered in relation to the benefits which could be obtained for our exporters in the sense of a reduction by 50% in foreign tariffs imposed against Maltese products. This reduction should be a good incentive to a larger volume of exports from Malta. Naturally the benefits will not come automatically and it would be the task of the exporters themselves to penetrate the new markets. If our exporters are enterprising enough they would find that in one important respect, at least, their goods could be shown to be very competitive with those of other countries.

19. If Ministers agree with the assessment made of the position and with the points of view indicated earlier in this Memorandum, steps will be taken to formulate Malta's initial offer and to communicate it to the Director General of G.A.T.T. This initial offer will be formulated as specified in (i), (ii) and (iii) of paragraph 16.

30th June, 1966.

<u>BTN No.</u>	<u>Item</u>	
01.05	Day-old chicks	}
02.02	Frozen poultry	
04.05	Shell eggs	
06.02	Flower cuttings	
06.03	Fresh cut flowers	
07.01	Early potatoes	
07.01	Onions	
12.03	Vegetable & flower seeds	
05.07	Soyabean oil	
19.03	Macaroni	
20.02	Tomato paste	
21.07	Fruit squashes	
22.03	Beer	
22.05	Wine	
34.02	Detergent powder	
34.06	Candles	
36.06	Safety matches	
39.02	Expanded polystyrene	
39.07	Plastic doylies etc.	
39.07	Polythene bags, etc.	
40.04	Synthetic rubber mouldings	
41.01	Raw hides and skins	
42.02	Suitcases, handbags and travelling bags	
42.03	Gloves	
48.15	Toilet paper	
51.01	Synthetic fibres	
51.01	Nylon stretch yarn	
55.05	Cotton yarns	
56.04	Man-made fibre tops	
58.09	Handmade lace	
58.10	Embroidered motifs	
60.03	Nylon stockings, socks	
60.05	Knitted outerwear	
61.01	Denim jeans	
61.02	Infants' wear	
61.03	Shirts	

AGRICULTURAL
ITEMS

APPENDIX "A" (contd.)

<u>BTN. No.</u>	<u>Item</u>
64.02	Leather footwear
65.05	Caps uniform
69.03	Ceramics
71.16	Imitation jewellery
73.40	Wrought iron articles
85.23	PVC electric cable
87.02	Assembled cars
94.03	Wooden furniture
94.04	Spring mattresses
98.11	Smokers' pipes

INDUSTRIAL ITEMS ONLY

	<u>Losses in</u>			<u>Gains in</u>		
	<u>U.K.</u>	<u>Canada</u>	<u>EEC</u>	<u>EFTA</u>	<u>USA</u>	<u>Japan</u>
Detergent powders	x	x		x	x	
Candles	x		x	x	x	x
Safety matches	x		x	x	x	x
Expanded plastic	x			x		
Plastic doylies	x			x	x	x
* Polythene bags	x			x	x	x
* Rubber mouldings	x	x	x	x	x	x
Hides and skins	x	x	x	x	x	x
Suitcases etc.	x	x		x		x
Gloves	x	x	x	x		x
Toilet paper	x		x	x	x	x
Synthetic fibres	x	x	x	x	x	x
Nylon yarn	x	x	x	x	x	x
Cotton yarn		x	x		x	x
Fibre tops	x		x	x	x	x
* Hand-made lace	x	x	x		x	x
Embroideries		x	x		x	
Nylon stockings	x	x	x		x	x
Knitted outerwear	x	x			x	x
Jeans		x	x		x	x
Infants' wear		x	x		x	x
Shirts		x	x		x	x
Leather footwear	x	x				
Caps	x		x	x	x	x
Ceramics	x		x	x	x	x
* Imitation jewellery	x	x		x	x	x
Wrought iron	x	x	x		x	x
Electric cable	x	x		x	x	
Assembled cars	x	x	x	x	x	
Metal furniture	x	x	x	x	x	x
Modern furniture	x	x	x	x	x	x
Spring mattresses	x		x	x	x	x
* Smokers' pipes	x		x	x		x
	28	22	24	23	28	27

N.B. These gains and losses may change as a result of the bilateral talks referred to in paragraph 7, also because the countries can change their lists.

Articles marked with an asterisk (*), the U.K. market accounts for over 50% of exports from Malta.