An Interview on Development and Association Policy with Herbert Westerich, President of the Hamburg Chamber of Commerce.

This October the EC and 43 associated and associable countries of the Third World are entering into negotiations which will occupy them for about a year. The 43 developing countries have already presented one of their most important demands: That the Community is to dispense with reciprocal preferences. Should this claim be accepted by the EC?

There are, as I see it, two aspects to the demand to do without reciprocal preferences. One involves the question whether the exporting industries can "afford" and ought to do without these preferences. That is I think a question which can be answered in the affirmative, certainly for the German economy as a whole.

The other aspect has to do with the most-favoured-nation principle of Gatt: if the reciprocal preferences are given up, the relationship known as association can no longer be justified as a sum total of free trade agreements, which could have the consequence that the preferences still granted to the associated states should at least be conceded likewise to all the other developing countries. Whether the reciprocal preferences of the associated states could be offset in other ways, e.g. by assurances concerning legislation on investments, without contravening GATT is still an open question.

The Hamburg Chamber of Commerce has long been in favour of gradually transferring the part of the association agreement which pertains to trade policy to the system of generalised preferences. Its sudden cessation however would raise the question of repercuassion on the policy of integration and in particular the French reaction. A provisional solution is perhaps provided by the idea of the Commission that the Community though not dispensing with reciprocal preferences should leave it to the associated and associable states to decide whether or not they want to grant reciprocal preferences.

Other demands by the 43 developing countries included greater liberalisation of EC imports, especially agricultural products, price guarantees for raw materials to cover their costs, and increased financial engagement by the EC in these countries. How are these demands viewed in business circles?

Price Guarantees for Raw Materials

From the Hamburg point of view I can subscribe in principle to the demand for greater liberalisation of Community imports, especially for agricultural products. The views of the negotiating parties will however still have to be set out in greater detail before a final judgement is possible.

As regards price guarantees for raw materials I may point out that the Hamburg Chamber of Commerce drew up detailed comments on the proposals of the Commission at the end of July. Detailed discussions with the circles interested in such imports, the traders as well as manufacturing industry, have convinced the Chamber that for
reasons of principle as well as in the light of practical considerations the proposed stabilisation mechanism cannot be considered an acceptable model for development policy.

**Points of Criticism**

*What are your objections to the proposals of the Commission?*

In the first place, the stabilisation measures in question are not of a kind to promote and encourage the indispensable efforts which the favoured countries themselves must make to adapt their production of basic materials to the requirements of the world market. On the contrary, it must be feared that the envisaged adjustment for the difference between actual export value and reference value will tempt them to produce "for the reference price" and thereby miss the market.

Secondly, the incentive for the favoured countries to turn to subsequent processing stages will be the smaller the more safeguards and encouragement are provided for raw material exports by means of export guarantees. This being the case, the stabilisation proposals would probably strengthen the tendency in the favoured countries to retain the role of raw material supplier and neglect the vertical diversification which is desirable for development.

Furthermore, it must be feared that the proposals of the Commission for the favoured countries will make for inflexibility in the regional distribution of their exports. In order to avoid manipulation by diversion of exports the Commission wants to take precautions based on the premise that the raw material exports from the favoured countries to the Community and to third countries will continue at a more or less constant ratio. Such a fixation of the regional distribution of the exports however can operate to the detriment of the favoured countries by limiting their choice of the most advantageous outlets.

**A Heterogeneous Group of Countries**

When the future relations with the associated and associative countries are decided, more consideration should also be given to the fact that they are a very heterogeneous group of countries which differ greatly as regards their state of development. We believe that the Commission's system for the stabilisation of earnings is likely to benefit mainly the most advanced developing countries, and not the poorest because their inconsiderable external trade is chiefly confined to exchanges with their direct neighbours.

Moreover, the Commission's estimates of the likely cost of the stabilisation mechanism are understandably only approximate and subject to several qualifications, apart from the fact that they do not include the cost of the possible support scheme for sugar. In the light of the present boom in most commodity markets which would of course be of relevance for the calculation of the reference prices it must be feared however that its costs would in fact put a much heavier burden on the Community than has been assumed by the Commission.

**Transfer to the System of Generalised Preferences**

Unlike the Commission, the Hamburg Chamber of Commerce has always spoken up in favour of gradually transferring the special preferences to the system of generalised preferences. The proposals of the Commission however amount to a perpetuation of the trade preference margin insofar as any multilaterally agreed tariff reductions are to be offset by lifting the reference prices in proportion.

The Commission has drawn up its proposals on the basic assumption that the dominant feature of the commodity situation is a surplus of raw materials. Recent experience shows that conditions can change quickly. In the view of the Hamburg Chamber this is another aspect which suggests that it is not very advisable to operate a product-related stabilisation mechanism which third countries in bottleneck situations can use as a welcome excuse for giving the Community the "brush-off". Global aid could not be misused so easily.

To sum up, it may thus be said that for a variety of reasons the Chamber does not regard the stabilisation system in the form presented by the Commission as an acceptable development model. It believes that an aid system which is neutral as between different commodities and takes any other foreign currency earnings into account, combined with tying aid to individual projects, would be a more suitable alternative.

**Extension of the Preferences only in the Longer Term**

Clearly the EC will soon have to develop a new concept for its association policy. Would it not be more logical to grant the preferences and technical and capital aid to all the developing countries, including the non-associated ones?

I answered part of this question already in connection with the first question. I agree with you that association policy has undergone a great change of scenery since the opening meeting at the end of July, but I have doubts about the permanence of the consensus of opinion in the speeches of the three speakers from favoured countries. Will it last through the