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TRADE POLICY REVIEW MECHANISM

EUROPEAN COMMUNITIES

MINUTES OF MEETING

Chairman: Mr. Lars Anell (Sweden)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. In his introduction, the Chairman recalled the objectives of the Trade Policy Review Mechanism as decided by the Council on 12 April 1989 (L/6490). Accordingly, the Council was to base its work on two reports, one submitted by the European Communities (C/RM/G/10) and the other by the GATT Secretariat (C/RM/S/10A and 10B).

2. The Chairman noted that the report by the European Communities followed the outline format agreed by the Council in July 1989 (L/6552). In preparing its report, the GATT Secretariat had sought clarification from the European Communities on the information contained in the six factual chapters of the report. Some contracting parties had given advance notice in writing of points they wished to raise during the meeting. The EC delegation had been informed of these points. It was understood that these questions should not limit in any way the scope of discussion in the meeting.

3. The Chairman thanked the two discussants, who had agreed to assist, in their personal capacity, the Council in its evaluation of the European Communities' trade policies and practices. After the introduction by the representative of the European Communities, Mr. Denis would open the discussion followed by supplementary remarks from Ambassador See.

II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF THE EUROPEAN COMMUNITIES

4. The recent period, say over the last five years, has been one of major change and thus of major significance for the structure of the Communities' trade policies. Without attempting any formal order of hierarchy I would mention the following:

- (i) the Single Market programme to be completed by the end of 1992 which has had and will continue to have a major impact on trade and investment flows;
- (ii) the Uruguay Round which since 1986 has encouraged a major shift towards liberalisation of trade in services and towards stronger rules in other trade-related fields;
- (iii) the sensational political and economic developments since mid-1989 in central and eastern Europe (and in the USSR) which have led to a total reform of the Community trade régime for these countries.

5. These and other events have led to the prospect of fundamental changes in a number of areas of trade policy, with important liberalisation foreseen in the textiles sector (as and when the MFA is phased out), in the steel sector and for imports of motor vehicles. Last but not least, the EC has offered to engage in a major reform of its trade arrangements for agriculture, touching not only international support levels but also import protection and the system of export refunds. Furthermore it is now entering into a wide internal debate about the reform of the Common Agricultural Policy, a reform which is expected to underpin the results of the Round.

6. It is therefore a moment of great significance in the evolution of the Communities' trade policy, and we welcome the opportunity to present these changes and prospects to the Contracting Parties. The Communities' TPRM report has focused mainly on these issues, offering an analysis of our trade policy system as we see it, and an overview of the structure of our trade relations with third countries as they have developed within the broader economic and historical context of the Communities' own development.

General Assessment

7. The European Community occupies a unique position in the GATT system. It consists of twelve individual contracting parties who have chosen to merge their separate trade policies, via the establishment of a customs union. They act as a group with a single spokesman and negotiate together in GATT matters. This apparently simple construction is, however, extremely complex and not without its contradictions. In our report we attempt to explain some of these complexities and their consequences - both positive and negative - on trade policy decision making and implementation.

8. As one of the major groups accounting for 20 per cent of world trade, the trade policy of the Community is naturally under constant international scrutiny. There seems, however, to be a tendency in official and academic studies to opt for the mildly critical, or even the strongly critical, approach. This would have us believe that the EC trade policy is largely dominated by measures of a trade restrictive kind. We consider this to be an unbalanced judgement, which fails to recognise the basic openness of the EC market and its contribution to the growth of world trade in recent years. After all, a grouping which represents one-fifth of world trade - and as much as one-third if you also include the intra EEC trade flows - must be considered as one of the major driving forces behind the high levels of global trade and output that we have seen in the 1980s.

9. In our TPRM report we try to demonstrate not only that this critical view is unbalanced but that it is also misconceived: the European Community is in its very nature an open trading unit, and the EC trade régime is not in general over-protective. In this respect it certainly bears comparison with the trade policies of its major GATT partners. At the same time we try to show that recent developments and possible future prospects in some of the areas under particular fire from third parties have a positive side which ought not to be overlooked.

10. I would like to draw your attention to a few facts concerning the external trade of the European Community:

- (i) Imports of goods from third countries to the EC - as a percentage of GDP - have remained fairly stable around 10 per cent since 1960, major fluctuations in this figure mainly reflecting changes in commodity prices. Despite the dynamic growth of internal trade flows, and changing patterns of intra/extra trade, this suggests that there has been no diminution or adverse effect on the Community's trade with third countries.
- (ii) The average growth of EC imports from third countries was 10.2 per cent per annum from 1958 to 1989 (measured in US\$). This compares to 10.4 per cent in Canada, 10.3 per cent in Sweden and 10.9 per cent for the world (excluding intra EC trade).
- (iii) In a period of increased share of services in GDP and increased foreign investments, one could have expected a decrease in the share of merchandise imports relative to GDP, without taking into account the effect of internal trade flows. This has not occurred.
- (iv) In volume terms, extra-EC imports have grown more than EC intra imports since the mid-1980's, the period of increased internal activity in connection with the Single Market programme. This means, that the relatively weak growth of extra-EC imports in value terms in the second half of the 1980's is to be

attributed to the change in the terms of trade and not in the propensity to import from third countries (see Graphs).

11. In our report we have presented particular analyses of certain economic sectors which tend to be the ones most criticised as being too protected. We will not deny that certain sectors in the EC economy still call for - and are the objects of - specific policies to assist the structural adjustment required and in prospect (textiles and steel), or that are maintained to achieve social as well as purely economic objectives (stability of prices and market conditions as well as fair levels of income in agriculture). However, the efforts already underway towards liberalization in these sectors, and the effects on trade flows of this gradual liberalization, tend to be overlooked. This is why our report has directly tackled exactly those sectors in which we seem to be criticised the most. We believe, for example that there is another story to tell and, *inter alia*, the following points can be mentioned:

- (i) The EC is the world's largest importer of agricultural products, accounting for over one-fifth of world imports which compares more than favourably with other major partners. What is more, over half of these imports are duty free, a fact that is sometimes forgotten.
- (ii) Total Community imports of textiles and clothing have more than tripled since 1976, and imports from MFA countries have grown by the same percentage.
- (iii) Although certain member States restrict imports of motor vehicles, the EC as a whole is not a closed area for car imports. Indeed in a number of member States there is already full and open competition in the market and levels of import penetration e.g. by Japan are relatively high.
- (iv) 85 per cent of steel imports enter the EC without any obstacle outside the normal low or preferential zero tariffs.

Trade policy and decision-making

12. The basic trade policy objectives of the EC are laid down in the treaty as the aim of member States "to contribute ... to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers". The major and fundamental objective of the Communities is therefore to support and strengthen the multilateral trading system, ie. the GATT as an institution and the set of rules governing international trade embodied in the General Agreement. Furthermore, EC trade policy seeks to provide support to the development and industrialization efforts of the developing countries.

13. Each participant is free to make his own judgment on the degree to which we have pursued these objectives successfully. We believe that the clear evidence of the last 30 years - when world trade has in general outperformed world output - and the substantial lowering of industrial

tariffs and reduction in non-tariff barriers is at least a partial reply. We are proud too to record the major achievements of the Communities in the area of free trade with its regional partners, with EFTA, with Mediterranean countries, and with its Lomé partners. We see this in no way as antithetical to our strong support for the multilateral system; on the contrary, the two objectives complement and reinforce each other.

14. It might be argued, nevertheless, that the pursuit of our objectives has not always been totally consistent and that there are blemishes on the record. Of which contracting party is that not equally true, I wonder? Without going into a detailed account of the Communities' historical development, it may be sufficient simply to underline that the Community is not a static union of countries built around one or another already adopted policy. On the contrary, it is a union undergoing continuous development in a number of directions: with expansion of the number of member States, ever increasing areas of cooperation, changes in the institutional setting and frequent evolution in the procedures for decision-making.

15. Two additional features are worth mentioning. The heterogeneity of the EC member States is a basic feature of the Community which impacts on trade policy. Each new member State contributes its own priorities, preferences and interests to those already existing. Not only does the level of income per capita vary widely, with the poorest member State less than half the richest member State; but the structure of the economies are substantially different, with for example agriculture contributing only around 1 per cent to GDP in the United Kingdom, but almost 16 per cent of GDP in Greece.

16. It is not a formal objective of our trade policy to reduce regional disparities among member States, but in practical terms any decision will necessarily reflect a balance of interests among member States. In particular, the EC must pay special attention to the capacity of the individual regions to adapt to structural changes required in response to one or another trade policy measure. These of course impose adjustment costs on one region but will benefit another: to the extent that costs and benefits are within the same country, this adjustment process has the same implications as for any other GATT contracting party, but when costs and benefits fall in different member States, the process can alter the budgetary and economic balance among them and bring about unintended social and political implications.

17. Community decisions are therefore very often the result of hard fought internal negotiation and ultimately of compromise. This tends to make Community decisions well-balanced, a product of several internal processes of reconciling divergent views, and to reflect the middle ground of compromise. The institutional procedures of decision-making make the process and the final decisions very transparent also for third countries. This seems to have led to perceptions that policy is more restrictive than is actually the case, whereas it is in reality a reflection of the transparency that exists as regards trade measures.

18. When countries group together to form a customs union or a free-trade area, the basic objective is to increase economic growth, through a better allocation of resources and through the advantages of scale in a larger duty-free market. It should not therefore be a surprise that the process of internal liberalization within the EC has led to more rapid growth in the internal trade flows than in the trade between the EC and third countries. In itself, however, this is a statement about the dynamics of the customs union and says nothing about potential diversion away from external trade. Indeed, if intra EC trade had not grown faster than extra EC trade, in parallel with the dismantling of internal trade barriers, one might wonder what arguments would in future be advanced in GATT to demonstrate the benefits of free trade.

19. All in all the comparison of the development in internal trade flows and external trade flows seems to make little sense when it comes to reviewing EC trade policies and the effects of these on third countries. No such comparisons are made of differences in sales taxes or environmental regulations between California and Ohio, or between Hokkaido and Kyushu; and I suspect those differences may be equally relevant to third country concerns.

20. Some of our trade partners have in the last couple of years raised concern about the effect on third countries of establishing the Internal Market in the EC. It cannot be stressed enough that the elimination of trade barriers between the individual EC member States will apply equally to Community products and products imported from third countries. Thus the advantages of harmonized standards, non application of internal customs control etc. will benefit producers in third countries equally and in the same way as internal producers.

21. The establishment of the Internal Market will in particular have major implications for the maintenance of national quantitative restrictions. Disparities in national import régimes which have in the past been enforced by means of measures applied under Article 115 of the Treaty of Rome are incompatible with the objective of eliminating all barriers to the free circulation of goods within a unified market. With the abolition of internal frontiers this approach would not be operational after the end of 1992, and this will have important consequences for the application of national restrictions. These would have to be adjusted accordingly. Also the effect of the implementation of the internal market on economic growth in the Community will have positive repercussions for third countries, inter alia, through an increase in EC imports from external sources.

22. Finally as the EC naturally does not operate in a vacuum, I would like to set its trade policy régime in perspective of the conditions prevailing in the world surrounding us. This is not to be seen as an excuse for any shortcomings which might exist in the Community's own trade policies, but rather as an illustration why it can sometimes be difficult to justify to EC producers that we should further liberalize our already very open market, while most of our trading partners remain more - and some even highly - protective.

23. The present EC average tariff on industrial products of only 5.7 per cent of which 99.8 per cent are bound, compares to tariffs of 18 per cent in Australia of which only 29 per cent are bound, to 37 per cent in Brazil with 16 per cent bound, and to as much as 43 per cent in India which at present has bound only 3 per cent of her tariffs.

24. While the EC has only very few quantitative restrictions and is in the process of further reducing these as part of the implementation of the internal market, EC exports are met by an extensive use of QRs and import licensing in the developing countries. While the EC supports the multilateral system, the US through its Omnibus Trade bill - especially section 301 - tend to resolve trade policy problems on a bilateral basis, leaving it up to the American Administration to decide what is and what is not fair trading practices. While the EC is harmonizing its Internal Market, eliminating internal custom procedures and harmonizing standards, Japan remains a market which for structural reasons is very difficult to penetrate, standards and local regulations differ from State to State in the United States, and most developing countries apply an extensive number of more or less transparent non tariff measures.

25. I would like to express the sincere wish that this exercise of Trade Policy Reviews will contribute positively to the endeavours for liberalisation of trade policies of the EC, as well as of the trade policies of our trading partners throughout the world.

III. STATEMENT BY THE FIRST DISCUSSANT

26. We are fortunate to have as a basis for this first comprehensive trade policy review of the European Communities a highly informative, professional analysis set out by the GATT Secretariat. This is the quality expected for a valuable TPRM process. The complementary report provided by the Communities is also a commendable effort to enrich us with the lessons of its trade policies as a major trading unit still in the process of internal market and economic integration. I have found the tone of its report and of its initial statement to be candid and forthright, although somewhat defensive.

27. I am mindful, of course, that the function of this TPRM is to examine the impact of the participant's trade policies and practices on the multilateral trading system. It is neither a forum for negotiation nor for dispute resolution. I therefore have three sets of points to make relating to the Communities' Internal Market, its overall trade policy approach, and its institutional framework. I hope that it will be a fair and constructive contribution to our discussion of Communities' trade policies as an important and complex pacemaker in international trade policy.

28. My first questions and comments relate to the statement in the Communities' report to the effect that the establishment of the Internal Market is additional to, and designed to complement, the multilateral liberalization of international trade. For the outside world, European economic integration has always been watched with mixed reactions. With respect to the traditional customs and tariff matters, there is an impression that the Communities trade liberalization goals with the rest of the world tend to be rather modest. This seems to come from an apparent desire on the part of the Communities to maintain a level of dutiable common external tariff as a tool of external integration. Where harmonization of legislation or regulations of specific policy instruments is involved, there is a perception that this dynamic process tends to favour harmonization to the most trade-restrictive levels existing among member States, reflecting a greater degree of market or trade intervention than would be necessary or desirable in an open non-discriminatory trading environment.

29. There are also trade and investment concerns related to particular sectoral policy areas where the possible adverse impact of particular policies on world markets often appear to be receiving insufficient attention by the Communities. The experience with the impact of the Common Agricultural Policy comes to mind. The concerns about sectoral reciprocity requirements in respect of a number of service industries also come to mind. The same goes with respect to a number of industrial policy developments centred on high technology industries, where the lines between internal market integration and external protectionism tend to be blurred, particularly because inward foreign investment seems, at times, to be leveraged by the threat of a restrictive use of some import trade policy instrument. I have also been perplexed by the Communities' statement to the effect that "the forward looking rôle played by the Community in

extending GATT rules and disciplines to the services sector does not upset the balance needed for opening up the Single Market".

30. In addition, the Communities efforts to move towards economic and monetary convergence as an underpinning of the functioning of its internal market is a process that the rest of the world watches with great interest. However, it is difficult to understand why a special monetary system for agriculture is still in place.

31. Overall, these perceptions raise the question of whether the pace of international trade liberalization acts as a brake or as an engine for the multilateral trade liberalization process itself. Also since the development of common trade rules within the Community is yet not fully accomplished in the area of trade in services, the question arises as to how this may affect the implementation on a Community wide basis of agreements which may result from the Uruguay Round.

32. With respect to the Communities overall trade policy approach, it is historically clear that the Communities have been actively engaged in all GATT trade liberalization negotiations while also being a trend setter in terms of regional and bilateral preferential trade agreements. The Communities' report emphasizes that it regards regional trade arrangements as a complement to the multilateral system. It seems to me that there are questions about what appears to be a less than central rôle for the m.f.n. principle and about the cumulative impact on the global system. Put another way, is the multilateral track of trade liberalization getting enough attention relative to competing trade policy initiatives of the Communities?

33. I also have a question about the Communities' general trade policy approach in terms of its relationship to environmental policy. I have noted a significant number of specific examples in the Secretariat report where the Communities have in place import or export controls or other trade-restrictive measures for various environment-related reasons. I wonder whether the Communities have adopted any general principles or policies to guide the management of the relationship between environmental or trade policies?

34. In view of the importance for the trade liberalization process of effective structural adjustment policies internally, I have questions about how the coherence of various adjustment policies at both Community and member State levels is managed. For example, while trade policy is a Community level responsibility, various sectoral and regional State aids seem to rest largely at the national level, although the Commission seems to have the power to ensure that industry support by member States does not distort trade and competition. In addition, numerous examples of direct and indirect measures at the national level have been singled out by the Secretariat. The point is also made in the Communities' report that the freedom of choice in the design of the Communities' trade policy is limited by the need to ensure a balance of interests among member States in terms of the adjustment costs resulting from trade liberalization.

35. From both a structural policy and trade liberalization perspective, agriculture stands out as a sector having so far largely remained outside the mainstream of broad-based trade liberalization. Indeed I noted from the Communities' report that the Communities do not have any formal statement of trade policy objectives in the agriculture sector. This is rather extraordinary given that the Communities are now the second largest exporter of agricultural products in the world.

36. In view of the major impact of that policy on world markets, there is a perception that the Communities may experience a degree of over-achievement in terms of the domestic policy objectives laid down in the Treaty of Rome, but of under-achievement in terms of multilateral disciplines. I wonder whether the Communities would elaborate on how it sees the relationship between its internal agricultural and external common commercial policy objectives.

37. My last set of questions and comments relate to the Communities' institutional framework. It becomes clear from reading the reports before this meeting that the Communities' decision-making operates on the basis of a complex set of "checks and balances" where the competing forces of regional integration, globalization and national specificities are occupying the playing field. Despite emphasis on common trade legislation and on a uniform application of trade policy instruments, there seems to be a considerable capacity for catering to special trade interests in different sectors at the member States level and in respect of individual policy instruments. This seems to be reinforced by the fact that the main trade and industrial private sector interface with trade policy makers appears to be primarily at the member State level. I wonder whether this creates difficulties for formulating or responding to multilateral policy initiatives in favour of broad-based trade liberalization, consistent with the global trade interests of a trading unit of the economic size and diversity of the Communities.

38. The capacity of individual member States to suspend certain products from free circulation within the Communities' internal market would seem to deserve further clarification. I am referring to the Article 115 process under the Treaty of Rome which seems to raise questions about the potential predictability of the full enforcement of GATT agreements on a Community-wide basis. This may be particularly the case since the application of Community law to individual cases apparently lies, as a general rule, with the member States. In addition, one is perplexed by the Secretariat's observation to the effect that, "reflecting the focus of external trade measures which it is intended to support, Article 115 has never been applied on an erga omnes basis". Did I understand it right from the Communities' initial statement that the Article 115 procedures may not be operational after 1992?

39. Finally, I was interested to note that two-fifths of all GATT Article XXIII cases of dispute settlement since 1960 have involved the Communities, either as a complainant or a defendant. While this may suggest the importance of having an effective GATT dispute settlement in managing trade relations with a trading unit as big and as complex as the

Communities, I have questions about the reference in the Communities' report to the possibility of a protracted internal decision-making process in handling dispute cases as well as the possibility of blocking power by the minority. I wonder whether the fact that the European Court of Justice has determined that the GATT is binding on the EC has any practical implication on the handling of disputes. The fact that agriculture has been the source of half of all GATT disputes involving the Communities is also interesting to note.

40. In sum, I believe the remarks contained in the last paragraph of the summary observations in the GATT Secretariat report captures particularly well the broad trade policy considerations that should be the focus of this major trade policy review. This is that:

"The EC is one of the pacemakers in trade policy. It exerts a critical influence on global trends in the trading system, for example towards bilateralism or multilateralism, towards sector-specific arrangements or across-the-board trade liberalization, towards a rule-based or power-based trading system. The Communities' rôle in international trade could become even more important through new accessions. The Communities' international responsibilities would require that the movement towards closer integration among member States be matched by a parallel lifting of external barriers and closer adherence to the fundamental principles underlying the multilateral trading system."

IV. STATEMENT BY THE SECOND DISCUSSANT

41. At the outset, I would like to compliment the reports by the EC and the GATT Secretariat. Both are precise and well-documented, and complementary to each other.

42. The EC occupies a predominant position in international trade. Extra-EC trade alone accounts for 20 per cent of world trade. It is also the largest importer of agricultural products. The importance of the EC in the international trading system has been succinctly summarised in the GATT Secretariat report: "It (the EC) exerts a critical influence on global trends in the trading system, for example towards bilateralism or multilateralism, towards sector-specific arrangements or across-the-board trade liberalization, towards a rule-based or a power-based trading system."

43. I may add the following:

- (i) The EC's agreement to an overall package is crucial to the success or failure of the Uruguay Round. This is particularly so in the agriculture negotiations.
- (ii) The EC will complete its Single Market by the end of 1992. Whatever the positions that the EC would take, whether in technical standards, safeguards, rules of origin, or in the services area, they would have considerable impact on the international trading system and on GATT rules and disciplines.
- (iii) In addition to existing trade, co-operation and association agreements, negotiations are underway to form a European Economic Area, and to conclude association agreements with some central and eastern European countries. These would add to the "complex hierarchy of preferential arrangements", as mentioned by the GATT Secretariat, that the EC has already evolved in the past with the consequence that it would immensely increase the economic weight of the EC as the core of such arrangements. While such expanded association arrangements would undoubtedly add to the economic dynamism and trade-creating effects on the countries concerned the impact on the multilateral trading system needs to be monitored very closely. Already, such tendencies are being duplicated by major trading partners in other parts of the world.

44. However, it is comforting to note from the Secretariat observation that despite initial concerns about the Internal Market programme "there is little evidence of any recent major intensification of protective measures on the part of the EC."

45. The first discussant Mr. Germain Denis has addressed the macro policy issues as contained in the reports on the trade policies of the EC. I would confine my comments on some specific sectoral or trade policy

measures which, I hope, the Council may wish to address in the course of the trade policy review.

Bilateral restraint arrangements

46. Apart from MFA IV bilateral arrangements, it is said that some fifty bilateral restraint arrangements are known to be currently in place, involving the EC, individual member States or their industries. This network of bilateral restraint arrangements has reduced transparency in the multilateral trading system and introduced strong elements of discrimination. I wonder whether the EC could provide a summary of the contents and nature of these bilateral restraint arrangements. Are there any plans to phase them out?

National QRs

47. Where the external restrictions are covered by EC law, individual member States may resort, upon approval by the Commission, to national interventions in intra-EC trade under Article 115 of the EEC Treaty. Currently individual EC member States are said to have imposed over 1,000 QRs. Would this practice continue after EC-1992? Concern has been expressed that the elimination of intraborder controls may lead to the transformation of existing, or residual, national QRs into EC-wide quotas or other protective measures. How would the EC address this concern expressed in the Secretariat report?

Safeguard Actions Under Article XIX

48. The GATT Secretariat report has mentioned that in contrast to its use of selective arrangements, the EC has rarely resorted to safeguard actions under Article XIX of the GATT. Is this due to special institutional reasons inherent in the EC? Moreover, after the elimination of intra-EC border controls after 1992, how would the EC intend to invoke safeguard actions under Article XIX i.e. in the context of material injury and imposition of EC restrictions?

Anti-Dumping Measures

49. According to the GATT Secretariat report, the EC ranks among the most intense users of anti-dumping measures worldwide. Out of 378 initiation cases, 279 measures were implemented, mostly in the form of price undertakings. Are those anti-dumping measures imposed on the individual exporting companies concerned or generally on countries where the exporters are located i.e. including new exporters not investigated? Concern has been expressed that frequent resort to anti-dumping procedures would generate uncertainty in trade and induce preference among third country trading partners to restrain voluntarily their exports to the EC.

Bilateral Trade Agreements

50. The EC has in place a number of association and co-operation agreements with third countries. Currently, the EC is negotiating a European Economic Area arrangement with the EFTA countries. Negotiations on association agreements with some central and eastern European countries are also underway. It has been observed in the GATT Secretariat report that "the long term trend in the Communities' external trade relations has been towards diversifying conditions of access to its markets." Would the EC like to comment on this observation, and how would the EC see this growing trend of bilateral trade and association agreements contributing to the strengthening of the multilateral trading system?

Reciprocity

51. In the services area, two notable features seem to emerge in the EC internal market programme, i.e. the emphasis on reciprocal treatment in the banking sector, and the creation of a EC cabotage market in the air transport sector. How would the EC see these two features contributing to the expansion of world trade in those service sectors?

V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

52. Council members complimented the European Communities and the GATT Secretariat for the quality and the coverage of their reports, which constituted an informative basis for the review. They thanked the discussants for their thought-provoking introductions to the debate.

53. The representative of Norway, speaking on behalf of the Nordic countries, referred to the close relationship between the Nordic countries and the European Communities. This resulted not only from geographical and economic factors, but also from historical and cultural ties. One striking feature of the EC was its complexity. The Secretariat report had shown an unexpected degree of heterogeneity among the twelve EC member States in certain trade areas.

54. The trade policies of the EC appeared largely positive when viewed against basic GATT principles such as transparency, predictability, non-discrimination, the use of tariffs versus other restrictions as means of protection, and general liberalization. Among policy trends which, from the Nordic side, warranted particular attention were the Communities' propensity to seek sector-specific solutions and its preference for selective arrangements in safeguard cases. The uncertainties generated by the relatively intensive use of anti-dumping measures, and the operation of the Common Agricultural Policy were further problem areas.

55. The Nordic countries believed that the planned agreement on a European Economic Area and the Communities' association agreements with eastern European countries would contribute to further liberalizing international trade. However, moves towards closer economic integration must be accompanied by closer adherence to a rule-based multilateral trading system.

56. The process of EC integration illustrated the advantages to be derived from economic integration together with multilateral liberalization and cooperation in international trade. The EC was the prime example of the spirit of Article XXIV of the GATT. However, beneath the surface were a number of challenges which needed to be handled wisely in order to not conflict with the Communities' objective of furthering a strengthened multilateral trading system. The rôle and importance of the EC in this context were particularly well reflected by the Secretariat when pointing to the rôle of the Communities as a pacemaker in international trade policy.

57. He hoped that internal EC discussions on farm policy reforms would have a positive effect on the liberalization of agricultural trade. The Nordic countries welcomed the major effort being made in the Uruguay Round to integrate trade in agricultural products in the GATT. They were confident that the Communities' rôle, consonant with its weight and responsibilities in world trade, would help to achieve a balanced result of the Uruguay Round as a whole.

58. The representative of Chile said that his Government had a particular interest in this Trade Policy Review because Chile was the developing country that had most frequently been involved in GATT dispute settlement cases with the Communities. The declining share of developing countries in EC imports during the last decade could be attributed not only to external factors but also, at least partly, to a wide array of restrictive trade measures by the Communities. It was not clear under which GATT provisions these restrictions were applied. He wondered whether trade liberalization was the banner of emerging economic strength for the EC, as had been the case for the British Empire in the last century or for the United States at the end of the Second World War.

59. His authorities considered that the absurdity of the Common Agricultural Policy was illustrated by the fact that export refunds by the EC in 1989 (US\$6.7 billion) equalled more than 80 per cent of Chile's total exports and 40 per cent of its external debt in 1990. According to OECD estimates, the EC had transferred a total of US\$73 billion to its agricultural producers in 1989. This was almost three times Chile's GDP.

60. Though the EC seemed generally to accept the rules of free trade, it did not always act in conformity with these rules. However, for countries like Chile it was important to have true free trade with the Communities.

61. The representative of the United States underlined the Communities' importance in the trading system. Extraordinary efforts were being made to dismantle remaining barriers in the internal market, to move closer to the EC ideal of a truly single market, and to achieve monetary and political union. Through this process, the EC aspired to become an economic superpower. This status had to be coupled with increased leadership.

62. Overall, the United States commended the Communities for the ongoing process of deepening and broadening European integration. However, this process had to be achieved in the framework of Article XXIV of the GATT, and the benefits of the Single Market had to be extended to third countries as well.

63. One particular area of concern to the United States was the destructive impact of EC agricultural policies on the multilateral trading system. The combination of variable import levies, domestic price support and export subsidies had distorted world markets and severely affected many contracting parties, particularly the developing countries. He wondered why the Communities could not reconcile its policies with the expressed objective of Article 110 of the Treaty of Rome to contribute, in the common interest, to the harmonious development of world trade. Since measures of production and expenditure control had proven inadequate, the United States encouraged the Communities to intensify its recent efforts towards fundamental policy changes. The large majority of the GATT contracting parties viewed such changes as a sine qua non for the completion of the Uruguay Round.

64. Referring to the established notification procedure for subsidies within the Communities, the United States representative noted both the

large number of notifications and the reluctance of some member States, as acknowledged by the Commission, to participate in this procedure. The Commission was requested to provide information on any remedial measures. He welcomed initiatives in recent years to rein in distorting subsidies, including aid to steel, coal, shipbuilding and automobiles.

65. In the area of Government procurement, member States practised buy-national policies for heavy electrical equipment, telecommunication switching equipment, satellites, and some services. The Communities could hardly lay claim to leadership in the trading system if it withheld more than 15 per cent of its GDP from international competition. The United States were looking forward to a successful renegotiation of the Government Procurement Code with the EC and the other negotiating partners. In this area, the Single Market programme could contribute significantly to the multilateral trading system.

66. United States' authorities had repeatedly complained about widely differing standards, testing and certification procedures among the member States. Since compliance with these requirements was often costly and time-consuming, the United States applauded the major effort undertaken in the Single Market process to harmonize technical regulations. In this process, non-EC producers should be ensured equal access to standards, testing and certification systems. The EC should also recognize third country organizations as competent to test and certify conformity to EC health and safety requirements; all these requirements should be based on sound science.

67. While acknowledging the progress made towards eliminating quantitative restrictions by individual EC member States, the representative of the United States emphasized that all such restrictions were in contravention of Article XI of the GATT and urged their complete abolition. Any transformation into EC-wide restrictions after 1992, for example in sensitive sectors such as automobiles, would seriously undermine the positive aspects of the Single Market programme. The most egregious example in this connection was the EC Broadcast Directive which provided for quotas on European television entertainment programmes.

68. The exclusion of significant sectors, particularly agriculture, from the coverage of EC preferential trading agreements clearly contradicted the basic requirement of Article XXIV that such arrangements should cover substantially all trade. His concern was renewed by current negotiations on free-trade arrangements with eastern European countries where the EC reportedly sought to exclude agriculture, textiles and steel.

69. More generally, the United States representative called for more transparency in EC decision-making in order to avoid misunderstandings, for example in the process of drafting regulations and conducting investigations. A leading partner in the trading system should have the confidence to let other participants comment on its evolving legislation. Despite its various concerns, the United States congratulated the European Communities for its vision and determination in building the Single Market. The programme had largely been carried out as a trade expanding exercise.

With similar vision, determination and leadership, the Uruguay Round should be brought to a successful conclusion.

70. The representative of India pointed to the high share of the EC in world merchandise trade and, accordingly, its strength in international trade policy. This implied a great responsibility for the strengthening of the multilateral system. Since the EC was India's single most important trading partner, both for imports and exports, India took particular interest in the Single Market programme. It hoped that the programme would result in multilateral trade liberalization and expansion to the benefit of all countries.

71. The Indian representative noted that measures on investment and services should not be included in TPRM reviews; any references should be limited to aspects relevant to trade in goods. Moreover, the Trade Policy Review of the EC was not the appropriate forum to tackle policy measures taken by India, as the European Communities had done.

72. While recognizing that EC tariffs on non-agricultural items were moderate in general, he drew attention to a number of tariff peaks and the existence of tariff escalation. These factors affected products of particular importance to developing countries such as footwear, with a tariff average of 20 per cent, and manufactured tobaccos where EC tariffs ranged from 26 to 117 per cent. In textiles and clothing, utilization of product and country-specific quotas was adversely affected by the technical complexity of the EC régime under the MFA and the distribution of quotas amongst member States. In India's view, national quotas were not consistent with the concept of a customs union under the GATT.

73. The Communities' GSP scheme was appreciated in principle. However, the exclusion of agricultural products was a major deficiency. Many industrial items of particular interest to developing countries like India were subject to quantitative ceilings. The utilization of the scheme was further affected by the stringent application of rules of origin.

74. Through its protection for agriculture based on variable levies and export subsidies, the EC acted against the interests of all other producers and exporters, including a large number of developing countries. The Indian representative expressed hope that the EC internal discussions on agriculture would bear fruit and that the Uruguay Round would lead to the integration of this sector into the GATT.

75. He was also concerned about the extensive use of restraint arrangements with major exporters, compared to the rare application by the EC of Article XIX of the GATT. Most measures were in areas of interest to developing countries such as agricultural and food products, textiles and clothing, and footwear. These non-transparent arrangements were inconsistent with provisions of the General Agreement and the principles of a free and open multilateral trading system.

76. Another worrying feature was the Communities' frequent use of anti-dumping measures. Their impact went far beyond the trade flows

actually affected by anti-dumping duties. The increased incidence of anti-dumping investigations over the years had led to delays in processing dumping complaints and had contributed to trade harassment, particularly of small exporters. The threat of anti-dumping measures could prompt exporters to restrict voluntarily their deliveries to the EC.

77. The representative of Canada complimented the EC for its leadership in the development of a rule-based multilateral trading system. The EC, in its own report, had called trade its lifeblood. Given the Communities' rôle in world trade, it was crucial that the continuing transformation of its trade régime was based on the principles of efficiency, transparency and openness. On the whole, the Internal Market process clearly was a move in the right direction. The programme, which enjoyed Canada's broad support, was viewed as a challenge to develop stronger ties with a dynamic market. However, the EC must take due account of its trading partners' legitimate interests.

78. In this connection, he expressed concern about the implementation of common external policies which often appeared to be left to member States. This could diminish the ability of the Communities to apply policies uniformly. Canada would welcome an explanation on how restraint agreements by Member States had evolved and what disciplines were being developed.

79. The process of harmonizing standards was viewed as an important positive step towards the Single Market. In this context, it was understood that the EC would soon begin discussions with trading partners on the mutual recognition of tests and certificates. The treatment of non-EC products was an acid test for liberalization in the standards area. The Canadian representative asked why, at the present stage of the 1992 programme, third countries were required to meet more stringent standards than certain member States, for example in the area of meat hygiene.

80. Canada's competitive position in the Communities should not be further eroded by preferential agreements, particularly in resource-based product areas such as fish and forestry. He also asked whether the EC was prepared to extend the benefits of the European Economic Area through multilateral negotiations.

81. From a sectoral perspective, agriculture caused particular concern. The external effects of current EC policies were hardly in line with the objective to stabilize markets as set out in the Treaty of Rome. Rather, the EC exported its market instability to world markets. The disruptive effects of the Communities' variable levies and export restitutions were an integral part of its price support policies. Canada agreed with the EC that the main means of reform should be price reductions. It was encouraging that the Communities recognized in its TPRM report that reform efforts had so far been inadequate. It would be interesting to learn whether the EC was now willing to embark on real reforms.

82. In general, Canadian supplies of natural resource products to the Communities were extensive. However, a number of distorting policies were in place, including significant levels of tariff escalation in metal and

minerals and various barriers in wood and newsprint. Neither TPRM report gave adequate attention to these barriers, on which Canada was trying to negotiate in the Uruguay Round. In the fisheries sector, Canadian exporters were seriously affected by relatively high tariffs, tariff quotas, labelling restrictions and reference prices for various products.

83. The application of EC rules of origin was unpredictable and non-transparent. Canada was concerned that the EC could relinquish the principle of "last substantial transformation" as set out in the Kyoto Customs Convention. Consistency in this area was also important in view of its effects on anti-dumping policy.

84. The Communities' anti-dumping procedures were not transparent. Exporters and other interested parties had no access to the information necessary to defend their interests.

85. The Canadian representative complimented the EC for its recent efforts to pursue more aggressively internal disciplines on subsidies. However, given the existing high levels of subsidization, national policies could continue to affect international trade. He enquired whether EC policies on State aids contained different disciplines for differing types of subsidy.

86. The representative of Switzerland recalled the economic importance of the European Communities for its European neighbours. This applied particularly to the Internal Market process and the negotiations on a European Economic Area. Regional liberalization could complement, or substitute for, global liberalization. He was reassured by the Communities' assessment of the fundamental objectives of European integration, and fully agreed that regional trade agreements complemented the multilateral system. They were an intermediate step towards the ideal of world trade free of duties and restrictions.

87. Through the elimination of internal barriers, deregulation and increased specialization, the EC Internal Market should become an important growth pole in the world economy. The trade effects could be expected to be the greater, the more the Uruguay Round contributed to multilateral liberalization. The huge bilateral deficits of Austria and Switzerland with the EC were not an indication that the current free-trade régime was harmful. The reality of international trade required a more careful assessment than a simple comparison of bilateral trade flows.

88. He hoped that the Uruguay Round could establish more effective rules for international competition. These were equally important for fair and unfair trade situations, for anti-dumping and countervailing measures, for subsidy disciplines and for the non-discriminatory applications of safeguards.

89. The Swiss representative noted that agricultural reform in the Communities was of primary importance for the success of the Uruguay Round. Reforms by the EC would also have a determining influence on other European countries, including Switzerland. Agricultural support policies had to be

developed which, while maintaining certain rural and farming structures, minimized trade distorting effects.

90. Clarification was sought on the harmonization of technical standards in the EC: the preparedness of the Communities to conclude agreements on mutual recognition of tests of conformity; the suspension of tariffs on products not produced within the EC; local content requirements under foreign direct investment rules; and reciprocity in the area of public procurement.

91. The representative of Argentina noted that the report by the Communities contained only a few, circumstantial links between the policies applied by the EC and GATT rules. In some instances, the report was unduly optimistic. He saw three main negative consequences of EC policies: increased trade diversion resulting from protection and selective liberalization; the growing compartmentalization of world trade into sub-systems; and the maintenance and reinforcement of protective practices inconsistent with free-trade principles.

92. Discriminatory effects were inherent in the Communities' preferential trade schemes. Many GSP beneficiaries were placed at a disadvantage to four groups of more preferred suppliers, namely the EFTA, Mediterranean, Lomé and, in the near future, the east European and the Gulf countries.

93. There was a clear contradiction between the Communities' optimistic view of the Common Agricultural Policy in the TPRM report and its assessment in a communication to the EC Council of Ministers at the end of January 1991. While the TPRM document underlined the importance of reform measures based on direct production controls or limitations on the use of production factors, the Commission's communication criticized those measures. It was stated that they had failed to tackle substantive problems such as the continued incentives for increasing production. While the TPRM report by the EC made no reference to the growing level of stocks, the communication by the Commission pointed to stocks of butter and milk powder of 260,000 and 335,000 tonnes respectively. No mention was made in the EC TPRM report of the market situation for cereals and meat, although market distortions and increasing stocks had been underlined in the Commission's recent communication.

94. There had been significant trade substitution effects, particularly in agriculture, since the inception of the EC. Between 1958 and 1988, the share of EC production in member States' food imports had climbed from 25 to 65.5 per cent. For manufactures, the increase had been from 48 to 58 per cent. Aggressive export policies had been used to conquer new markets.

95. The representative of Argentina noted that recently the EC had altered some import procedures which had previously been virtually automatic. These changes had caused prejudice to exporters with acquired rights in multilateral negotiations.

96. The representative of Brazil expressed hope that the Single Market process would lead to a genuine increase in external trade and not to the creation of new barriers and trade diversion. He was concerned, however, that certain restrictive and distortive instruments, especially in agriculture, could be continued. The Communities should negotiate their elimination, thus creating better conditions for growth and welfare in developing countries.

97. The Communities' preference for selective trade restrictions ran counter to the non-discrimination principle of the GATT. From his view, the extensive use of "grey area" measures continued to be a source of uncertainty and instability. In two important sectors for developing countries - textiles and clothing, and steel - he expected the EC to become more responsive to the need for liberalization and integration into the GATT. At the same time, he recognized that the EC aimed to solve its trade disputes within the multilateral framework and not by unilateral actions.

98. The EC considered quantitative restrictions and similar measures an important component of its trade policies, especially in agriculture. It was regrettable that these restrictions and their impact on overall imports could not be assessed in more precise terms in the TPRM reports. Variable levies clearly denied any comparative advantage of other countries to the benefit of less efficient EC producers. He wondered whether the EC was seriously prepared to negotiate away these restrictions or, instead, whether it would accept the establishment of similar barriers by other countries. He could not understand why, given the low share of agriculture in its GDP, it was so hard for the Communities to accept reforms.

99. From Brazil's view, it would be desirable that the EC's genuine preoccupation with the environment was translated into concrete actions towards a more environmentally sound use of natural resources, especially in agriculture. Overexploitation in the Communities had depressed world farm markets and, coincidentally, the distortions created by EC agricultural policies had also led to overexploitation by farmers in developing countries.

100. The Brazilian representative questioned the comparison made by the EC representative between average levels of tariffs in the EC and in developing countries. The profound structural differences between these countries were ignored. Brazil was currently undergoing an ambitious liberalization programme. A recent assessment by the United States Trade Representative had confirmed that Brazil's average tariff would come down gradually from its current level of 32 per cent to 14.2 per cent in 1994.

101. There were no common rules in the EC for value-added and excise taxes. Internal taxes in member States could be considerable import barriers. Recent substantial increases in Italy's internal taxes on coffee, cocoa and sugar products caused market losses for Brazil. It would be interesting to analyse whether the restrictive effects of tax harmonization in the Internal Market would offset tariff concessions, especially for tropical and other agricultural products.

102. Export restrictions by EC member States under COCOM seriously impeded the transfer of technologies to developing countries. These measures were no longer justified given the political changes in Europe.

103. As shown in one of the Tables in the Secretariat report, the EC, with 6 per cent of world population, accounted for 25 per cent of global GDP. Its per capita income was more than three times the world average. This argued strongly for continued efforts in the trade sphere to create more favourable conditions for growth in developing countries. The extension of the Communities' GSP to certain eastern European countries should not affect market access for other GSP recipients.

104. He requested the Communities to provide supplementary information to its report, for example on the effects of German unification on the EC import restraints for textiles. A quota increase would be needed in view of the expansion of the EC market by 16.5 million consumers. Furthermore, he asked whether all imports, including meat from eastern Europe or elsewhere, would be allowed to circulate freely in the Single Market.

105. Brazil had not commented on information submitted by the Communities on its services sector, because it did not consider GATT to be the appropriate forum.

106. The representative of Hong Kong said that she had transmitted a number of questions to the Communities for clarification. These related, for example, to future regional textile restraints in the Single Market. The EC had stated its commitment to the multilateral system and its full support for the conclusion of the Uruguay Round. Hong Kong inferred from recent Commission statements that the Communities intended to translate the Uruguay Round results into appropriate actions in the Single Market, and not vice versa. Negotiations in the Round had shown that in some areas the EC seemed inclined to mould multilateral instruments to meet its own needs. Single Market requirements should not undermine multilateral disciplines.

107. The share of external trade in the EC's total merchandise trade had declined sharply over time, because of strong commercial expansion among the member States. Furthermore, a significant proportion of external trade was with preferential partners. New initiatives to extend preferential relations were therefore viewed with some concern. Hong Kong gave high priority to upholding and extending the multilateral system and was interested in hearing how the EC would reconcile these growing regional tendencies with the strengthening of the system.

108. The representative of Hong Kong agreed with a statement by the EC, cited in the Secretariat report, that anti-dumping rules should not be interpreted unilaterally. In Hong Kong's view, such rules should be transparent and fair, provide adequate remedy to counter injurious dumping, be couched in explicit language and should not be abused. She was also surprised by a statement by France, reported by the Secretariat, that Asian suppliers did not always respect principles of fair competition, by charging dumping prices without opening their domestic markets. This did not apply to Hong Kong. The reference to possible use of self-restraint

arrangements gave cause for concern. The Code provided remedies, including price undertakings, for injurious dumping. Since all dumping was based on price variables, any remedies should be limited to price-based measures.

109. The Communities' minimal recourse to Article XIX, as against wide-ranging anti-dumping measures and selective restraint arrangements, suggested a predisposition towards bilateral and unilateral solutions outside the GATT framework. Hong Kong shared concerns expressed about the implications of such developments for the multilateral system and, in particular, for the m.f.n. principle. Negotiations in the Uruguay Round aimed to eliminate and prohibit voluntary restraint agreements. She hoped that the EC would refrain from further moves in this area.

110. Lack of transparency went beyond the field of bilateral restraint agreements. For example, amendments to the EC Council Regulation enumerating quantitative restrictions were often out of date by the time of publication. The information provided was sketchy and the actual limits of the restrictions were not specified. Member States concerned were often reluctant to provide information. It was recognized that monitoring all member States' trade measures was an enormous task, but greater transparency would be valuable. Hong Kong also echoed concerns expressed about the dangers of transforming national QRs into Community restrictions.

111. The reference to Hong Kong in the chapter of the EC report dealing with import restrictions faced by its exports was misleading. Hong Kong applied zero tariffs on all imports and maintained minimum controls. The openness of its trade régime had, moreover, been acknowledged by the EC representative during the Trade Policy Review of Hong Kong in 1990.

112. The representative of Japan complimented the European Communities for its commitment to the historic challenge of creating a Single Market. If this led to new dynamism and resilience in the EC economy, it would benefit the world economy as a whole. Japan welcomed the constructive rôle of the European Communities in cooperation and competition. However, there were also signs that the EC could become more inward-looking. It would thus be particularly important to have periodic TPRM reviews on the integration process.

113. Japan appreciated the Communities' aspiration to maintain and develop the multilateral system in the Uruguay Round. However, this went along with worrying cases of sector-specific or bilateral policies and arbitrary interpretations of trade rules, for example, in origin or anti-dumping cases. For example, the EC had without any justifiable reason, altered its criteria for determining the country of origin for semi-conductors. As a result, Japanese manufacturers were obliged to invest large sums on equipment to carry out the necessary processes within the EC. Unclear and unpredictable rules of origin for copiers had also been established. EC practices in determining dumping margins were inappropriate and created artificial results: especially in relation to the calculations of constructed values, treatment of indirect costs, and procedures for comparison of normal values and export prices. Anti-dumping duties on transactions between related parties were not refunded even after dumping

had ceased. Moreover, anti-dumping duties had been extended to legitimate and fair transactions. Although there had been no new cases under the EC "anti-circumvention" rules since a GATT Panel had found these rules inconsistent with the General Agreement, the EC should rectify its existing legislation promptly.

114. In relation to EC enlargements and the ensuing negotiations under Article XXIV(6) of the GATT, he said that the EC had tended to act unilaterally, based on questionable legal interpretations.

115. Restrictions by member States were among the most worrying problems. The discriminatory application of these measures and the imposition of quantitative limits were both in violation of the GATT. Japan was currently holding bilateral discussions with the EC with a view to abolishing such measures completely by the end of 1992. Certain member States, including Germany and the United Kingdom, had already taken welcome positive steps. By contrast, neither Italy nor Portugal had made any significant progress. He urged the EC to eliminate - and not to adjust - all existing restrictions.

116. He also expressed concern about recent EC legislation in areas of the Uruguay Round. For example, the Second Banking Directive provided for unilateral retaliatory measures against non-EC countries which did not accord effective market access. In Japan's view, this concept was obscure and open to misuse. Considerations of reciprocity also played a rôle in the area of mergers and acquisitions and in public procurement. He hoped that the EC would bring its rules and regulations into conformity with new agreements in these areas.

117. Export subsidies for agricultural products were particularly trade-distorting. These should be a top priority for the Uruguay Round. In this context, it was worrying that EC export subsidies had shown a renewed tendency to grow.

118. Japan had transmitted, through the GATT Secretariat, a range of factual questions to the EC. In particular, Japan sought clarification on the prospects for reform of the Common Agricultural Policy, on the ongoing negotiations with EFTA and eastern European countries, and on possible effects of the Internal Market process on the Uruguay Round.

119. The representative of New Zealand commended the European Communities for the new dynamics generated by the Single Market process. However, he had some difficulties with the information presented by the Communities in support of the perceived openness of its markets. For example, average tariff rates could be misleading. In the EC, non-tariff protection was often much more important. He recalled that, during the TPRM review of Japan, the EC had called for more transparency in administering trade related regulations. Such a comment equally applied to the Communities. In the transition process towards an effective single market, the EC must reassure its trading partners by firm and unequivocal commitments, for example, to eliminate the restrictions by individual member States.

120. EC policies particularly affected smaller trading nations with comparative advantage in areas where the Communities used subsidies as a means of competition. With its huge industrial strength, the EC could regard agricultural trade as residual. However, the increase in EC export restitutions for dairy products in July 1990 had led to income cuts of 40 per cent for New Zealand's dairy farmers.

121. The m.f.n. principle had been undermined through the complex hierarchy of preferential arrangements. Whatever the apparent beneficial effects of the steady expansion of the EC, New Zealand considered m.f.n. treatment to be the essential criterion against which trade policies and practices should be judged.

122. New Zealand recognized the Communities' leadership in some parts of the Uruguay Round. However, in the traditional areas of trade in goods, its performance had been uneven. While the EC continued to export its structural adjustment problems, some other countries had to undertake far-reaching reforms. What these partners needed now was a fair international trading environment which supported their liberalization. Just as New Zealand took comfort from the Communities' expression of support for its increased reliance on market mechanisms, it encouraged the EC to reflect on structural reforms in agriculture. Hopefully, the pressures for reform in member States could strengthen the Commission's efforts and aspirations in this area.

123. The representative of Hungary said that the European Communities held a unique position in the multilateral system. The dynamics of the EC market had always attracted the attention of neighbouring European countries. Profound reform movements in central and eastern Europe provided a new political basis for this relationship. As a result, negotiations on association agreements were underway and several countries had expressed their wish to accede to the EC.

124. He appreciated the Communities' response to the political and economic changes in his country, through the elimination of a major part of quantitative restrictions, the suspension of remaining restrictions in 10 member States and the inclusion of Hungary in the EC GSP scheme. These measures were of particular importance since, following German unification and the dissolution of the COMECON trading system, the EC had become Hungary's largest trading partner.

125. The agreement envisaged between Hungary and the EC would govern all bilateral relations, including political and cultural issues. Hungary's objective in the trade field was to conclude a free-trade agreement that was fully consistent with Article XXIV of the GATT. The agreement, along with the GATT, would provide the commercial policy framework until Hungary's ultimate objective of acceding to the EC was reached.

126. Since the EC was now, in fact, treating Hungary in the same way as almost all other third countries, it appeared particularly strange that, in law, it continued to apply a specific trade régime to Hungary. He hoped that the EC would soon cease this practice.

127. He felt reassured by the Communities' commitment to leading the Uruguay Round to a successful conclusion, including areas such as agriculture where the EC had to bear a special responsibility. By improving market access, the Communities could contribute to Hungary's economic transformation process and its integration into the world economy.

128. The representative of Australia commended the EC on the substantial progress made to date in pursuing its Internal Market programme and appreciated that earlier fears of a fortress Europe had not been confirmed. In the most worrying areas, in particular the use of reciprocity, the EC had responded to criticism. However, the Communities could do more to match internal integration with external liberalization and thus to contribute to the common effort of the Uruguay Round.

129. Complexity was the hallmark of the EC trade system. This applied in particular to the interaction between supranational, national and sub-national levels. This complexity could lead to inefficiencies and to an inability to reverse decisions.

130. The TPRM report submitted by the EC was disappointing in that it did not provide full information in accordance with the agreed format for country reports. This format had been used by all other countries reviewed to date. In particular, the Commission's report contained only limited information on trade policies by member States. Moreover, some member States had not responded to the Secretariat questionnaire.

131. The Commission's presentation was insufficient in trade-related areas such as subsidies, where the member States retained considerable scope for individual action. He hoped that the EC could provide, now or in a subsequent follow-up, additional information. The recent decisions by France to introduce a subsidies package for the electronics industry and supplementary assistance programmes for sheep farmers illustrated the importance of this area.

132. A high degree of bindings and generally low tariff levels characterised the Common Customs Tariff. However, liberalizing effects were countered by numerous non-tariff measures by the EC and member States. These were decisive in limiting access in key sectors such as motor vehicles, textiles and, in particular, agriculture. They were at odds with fundamental GATT principles, such as transparency and non-discrimination. Transparency was further reduced as many of these measures were imposed by only some member States, or in conjunction with EC-wide policies. The most heavily protected sectors were footwear, clothing, motor vehicles, consumer electronics, iron and steel, and agriculture. He also pointed to the frequent use and the threat of anti-dumping measures. Such measures, irrespective of their actual application, had affected the trading environment in general and the attitude of suppliers to the EC market. Predictability and transparency in general guidelines and regulatory mechanisms should prevent anti-dumping actions being used as elastic instruments of trade and industrial policies.

133. Neither the Secretariat nor the EC Commission had provided a clear description of the trade mechanisms in the complex hierarchy of current EC preferential agreements, or of the agreements projected for eastern Europe. It would be interesting to learn how the EC intended to manage its increasingly elaborate system of preferences. More information was also needed on the future of quantitative restrictions and on the possible application of Article 115 to protect regional markets after 1992.

134. Greater market orientation should become the leading principle in agriculture. The Commission's "reflections" paper of December 1990 had clearly demonstrated the past failures of the Common Agricultural Policy. Reforms consistent with the Uruguay Round objectives should include cuts in price support and the reorganization of policies and programmes to minimize trade distortions.

135. Since the EC market for most temperate-zone agricultural products was almost totally insulated from the world, the Commission's statement that EC market stabilization could contribute to the harmonious development of world trade was misleading. Greater changes in world prices were required to clear the market after shocks. By preventing imports and subsidizing exports, the EC had artificially reduced the volume of world trade and exacerbated problems associated with the residual character of world markets.

136. The representative of Australia disagreed with the Communities' statement that the level of agricultural protection had declined. Much of the reductions expressed in PSE estimates by the OECD for 1988 and 1989, resulted primarily from higher world prices, particularly for grains, after the North American drought. References to the proportion of agricultural imports entering the EC duty free could also be misleading. Duty-free agricultural imports consisted largely of tropical products. Imports of most temperate-zone agricultural products in the EC were severely limited by variable levies. Thus, the total volume of imports was artificially depressed and the share of categories under a more liberal régime appeared particularly high.

137. The Secretariat report was descriptive, rather than analytical, in the agricultural area. For example, it stated that the EC had cut and frozen intervention prices for cereals to contain the expansion of production. However, it did not point out that a cut in intervention prices was an ineffective method of curtailing production if import barriers remained high and if the EC continued to provide export subsidies for surplus production. The combined effect of these policies was to maintain domestic market prices above the intervention price.

138. The results of set-aside programmes had been disappointing. The production incentives given by high support prices were greater than the incentives not to produce under these programmes. Set-aside was no solution in the absence of price reforms.

139. The representative of Australia drew attention to the costs for consumers, taxpayers and trading partners of the complex web of EC sectoral

policies and non-tariff measures. He recalled the OECD estimates on the costs of agricultural policies and assessments by the IEA for the coal sector. He hoped that the European Energy Charter did not become a protectionist device similar to agricultural policies.

140. He welcomed the reference by the EC to the need for an industrial policy approach relying on open markets. He agreed that sectoral assistance would only delay structural adjustment and lead to job losses in the future. From Australia's perspective, the influence of producer groups on EC policies should be countered by an independent organization at the Communities' level to review policy developments regularly on an economy-wide basis. This organization should also publicize the costs of protection and the benefits of unilateral liberalization.

141. Australia's own liberalization measures would, by the mid-1990s, result in tariff levels that compared favourably with the Common Customs Tariff. Australia would maintain no quantitative restrictions or comparable measures and was prepared to negotiate on tariff bindings in the Uruguay Round.

142. Australia had passed a list of written questions to the EC, and requested written responses. Since other parties under review had not always provided comprehensive replies, he would welcome further guidance and encouragement from the Chair.

143. The representative of Poland pointed to the new pattern of trade and economic relations emerging between the EC and the reforming countries of central and eastern Europe. It reflected geographical proximity, complementarity of economic structures and common interests. The EC was now Poland's single largest trading partner, and had a great impact on its economic transformation process. While the EC had taken measures to ease market access, approximately half of Poland's exports continued to be affected by quantitative restrictions and other restraints. He saw no specific prospect for liberalization in areas such as textiles and clothing, iron and steel, and agriculture. Poland had exposed its agriculture to increased competition. It was essential that these reforms were accompanied by moves towards fair international competition.

144. Given the restrictive impact of certain EC policies still in place, some comments by Council members on trade diverting effects of the present régime appeared exaggerated. He hoped that Poland's continued problems could be effectively addressed both in the GATT framework and in the negotiations on an association agreement with the EC.

145. The representative of the Korea found it encouraging that initial fears of a protectionist Single Market were mitigated by efforts by the Communities to comply with GATT provisions. However, it still remained an open question whether the Single Market would finally prove trade expanding.

146. The selective application of safeguard measures was the most serious concern for developing countries. Remaining trade restrictions in member

States, for example on automobiles and electronic goods, could also be transformed into EC-wide measures. Worrying aspects of anti-dumping actions included arbitrary calculation of dumping margins and conduct of injury tests, and retroactive application of duties. Further problem areas were rules of origin and elements of reciprocity in certain EC regulations. He called for a non-political, neutral and strictly technical approach in trade legislation in order to avoid discriminatory or abusive measures.

147. Korea had tabled tariff offers in the Uruguay Round, was pursuing a tariff reduction programme, and had made commitments to liberalize the import régime during its balance-of-payments consultations in 1989. Recent measures were in line with this commitment and showed that Korea respected international trade rules.

148. The representative of Thailand, speaking on behalf of the ASEAN countries, commented on trade-distorting effects of the Common Agricultural Policy and the application of trade policy instruments by the Communities. He appreciated that an internal EC process of agricultural reform was proceeding. The Communities held the key to breaking the current deadlock of the Uruguay Round.

149. The ASEAN countries recognized that the EC tariffs for industrial products were generally low and evenly spread across tariff items. However considerably higher tariffs were levied on agricultural products, where there were a number of tariff peaks and tariff escalation. The Communities' extensive use of selective restraints, inconsistent with GATT provisions, had reduced transparency in world trade.

150. The ASEAN countries were concerned about the Communities' increasing use of anti-dumping actions as an instrument of trade protection or as a substitute for non-discriminatory safeguard measures. Frequent resort to anti-dumping measures could result in trade harassment, particularly of small exporters. Trade losses caused by actions terminated with no finding of dumping, or resulting in price undertakings or in quantitative restrictions, were not reflected in the statistics.

151. The completion of the EC Internal Market was one of the major future economic events. It was the responsibility of the EC to show by concrete actions, for example in the standards area, and by eliminating national restrictions, that fears of increasing protectionism were unfounded.

152. The representative of Morocco noted that the EC accounted for more than half of the foreign trade of his country. The EC TPRM report gave valuable insights into the institutions and decision-making procedures of the Communities. The Secretariat report had confirmed the basically liberal nature, despite certain shortcomings, of EC trade policies. For Morocco, the Internal Market generated new dynamics and provided trade opportunities on a much wider scale than hitherto.

153. The representative of Yugoslavia welcomed the Trade Policy Review as an occasion to explain policies and, more importantly, to consider adjustments and reforms. On the whole, Yugoslavia had not many

difficulties with EC policies. He hoped that in the near future the EC would become a community of all European States, with beneficial effects to all contracting parties.

154. Yugoslavia was specifically concerned about the large number of EC anti-dumping actions. Yugoslavia's involvement in these actions was six times higher than its share in EC external imports. EC transparency requirements were insufficient; there was no access to important facts. Many Yugoslav exporters felt that the methods of establishing normal values were biased, causing unjustified damage. The complexity and the high degree of sophistication of the procedures had added to protectionist elements.

155. Italy accounted for some two-thirds of the requests for anti-dumping investigations against Yugoslav exports to the EC since 1980. Mostly concerned were ferrous metals, but also electric motors and artificial fertilizers. Italy had also been fast in introducing import duties once the ceilings on artificial fertilizers were reached. It had imposed cumulative trade restrictions, for example, anti-dumping measures and additional self-limitations on artificial fertilizers and sheets of plywood. Market access to Italy was also affected by low textile quotas (categories 6, 7 and 15), low quotas for young beef and lamb and for live cattle, and by export ceilings for certain footwear expressed in pairs and not in tonnes.

156. Yugoslavia's deliveries of baby beef, lamb and live cattle had been subjected to import certificates in Greece, where importers had also been required to charge peak prices to consumers. Denial and delay in issuing licences in periods of peak domestic demand, such as for lamb at Easter, also caused substantial damage to trade. These measures negated benefits under the agreement between Yugoslavia and the EC.

157. Trade between Yugoslavia and the five new provinces of Germany had deteriorated further in 1991. The transitional import régime for the territory of the former German Democratic Republic had not benefited Yugoslav exports. The structure of import demand had considerably changed, and Yugoslavia's agricultural deliveries were now subject to the EC protective mechanism of variable levies, minimum prices and reference prices. Although the German market had significantly expanded, the EC had refused to increase the ceilings for duty-free imports in its agreement with Yugoslavia to compensate for trade losses in eastern Germany. Moreover, there had been losses in textile exports to Germany in 1990, when the German authorities had erroneously informed the EC Commission of an exhaustion of the preferential quantitative limits in two categories. As a consequence, tariffs had been reintroduced and a number of contracts had been cancelled. This was of particular concern to Yugoslavia, since Germany accounted for the bulk of its exports to the EC.

158. The representative of Romania appreciated the efforts by the EC and member States to suspend progressively the quantitative restrictions on Romanian exports and to accord GSP treatment as from 1 January 1991. This

was valuable support for the economic transition of Romania and for its better integration into world trade.

159. The representative of the Czech and Slovak Federal Republic noted that many trade policy problems between his country and the EC were gradually disappearing. Existing quantitative restrictions were being dismantled by the Communities according to an agreed timetable. Negotiations on an association agreement were underway, with the final objective of a free-trade area. His Government considered regional cooperation as a useful complement to the multilateral trading system.

160. The representative of Tunisia recalled the historical ties between his country and the EC, which was by far its single most important trading partner. Despite certain concerns about restrictive measures, Tunisia appreciated the overall development of its trade relations with the EC.

161. The representative of Colombia welcomed recent changes in EC trade policies that had led to increased openness in the Communities' market. He expected this trend to continue in the Internal Market process. He also thanked the Communities for its efficiency in setting up a special aid system for the Andean States affected by drug trafficking. This action was quite in contrast to EC internal decision-making problems as referred to in the Secretariat report.

162. Bananas were completely excluded from the negotiating framework of the Uruguay Round, in particular from negotiations on tropical products. He wondered how the EC régime in this sector - which he considered rather exotic - would evolve in the future. Colombia also asked how the system of internal consumption taxes in member States, for example on coffee, cocoa and tea, would be changed in the Internal Market context. Only recently, Italy had considerably increased taxes on these products.

163. The representative of Jamaica expressed gratitude for the Communities' readiness to continue the Lomé Convention in its present form. The specific relations of the ACP countries with the EC were an important factor for development and growth. He hoped that the downward trend in developing countries' supplies to the EC could be reversed as a result of ongoing adjustment programmes in these countries. From Jamaica's view, the 1992 programme provided for major new trading opportunities.

164. The representative of Costa Rica, while complimenting the EC for its achievements in developing common policies, pointed to three particular areas of concern to his country. These were the current access problems under the EC banana régime, the excise taxes of member States, in particular on coffee and cocoa, and the special treatment recently accorded by the EC to members of the Andean Pact. Since the affected products, such as coffee, were extremely price sensitive, the EC measures could seriously harm competing suppliers.

VI. FURTHER STATEMENTS

165. One discussant said that the Communities' trade policies had been subject to an interesting and candid discussion by the Council. Although not exhausting the full range of basic questions, the review had provided contracting parties with a forum to present major points of preoccupation. In his view, the process of European integration had, in general, been considered favourable to the GATT system as long as it was accompanied by a liberal and non-discriminatory external trade policy. There was also a strong wish that the European Communities should provide powerful leadership towards a strengthened and more open multilateral trading system, in particular in the more traditional economic areas. The issue of trade-distorting subsidies had only played a minor rôle in the deliberations, but was a major preoccupation for many countries. Future trade policy reviews should try to shed more light in this area. Certain institutional and legal aspects also deserved more interest. It still appeared open to him whether the applicability of the GATT and its legal status in the individual member States was ensured in a uniform manner throughout the EC. Would new GATT agreements at the end of the Uruguay Round need the assent of legal institutions in all member States in order to become effective? He recalled the question of whether the EC had developed specific policies for the interplay of environmental issues and trade policy requirements.

166. The other discussant noted that participants seemed to be fairly well assured that the EC Internal Market would not lead to a fortress Europe. It had been recognized that EC expansion, together with new regional arrangements in Europe, could result in economic dynamism and trade creation. He recalled the Communities' statement that the past trend of import growth in the EC was well in line with the performance of other major trading partners and of total world trade. However, concerns had repeatedly been raised that harmonization activities in the standards area, for example of EC health and safety requirements, might be based on the most protective level among the member States for internal as well as external trade. He noted that the EC representative had not commented on this issue. Further concerns were related to lack of transparency in subsidy programmes applied by individual member States and to the possible continuation of national restrictions beyond 1992. There were also criticisms of the Communities' sector-specific trade policies in agriculture and high-tech industries, its preference for selective measures such as bilateral restraint arrangements, and the arbitrary use of anti-dumping procedures. The EC representative should have elaborated more on these points than merely stating that they were a matter for negotiations in the Uruguay Round. Further significant points which emerged during the discussion were the trade impact of German unification and the responsiveness of EC trade policies to environmental considerations. Interestingly, there had been no follow-up on the observation in the EC report that trade preferences for developing countries in themselves were not sufficient to change aggregate trade flows. Finally, many participants had sought more precise information on the content, nature and rationale of the Communities' bilateral restraint arrangements and on the possible application of actions under Article XIX

of the GATT in an Internal Market without border controls. He wondered on what regional basis the EC would then determine injury and impose restrictions.

167. The representative of the United States reiterated concerns about subsidies in areas such as aerospace, electronics and computers. Even if these aids were not explicitly granted as export subsidies, they had considerable trade distortive effects, both on the import market and on world markets. He wondered how the Commission ensured that member States' practices in this area were in line with GATT obligations. He also requested the EC to provide a list of the State aids notified by member States and to give an overview of measures in the individual sectors, comparable to Table V.25 in the Secretariat report on aid to shipbuilding. Furthermore, the United States representative questioned how positive effects of EC integration could translate into trade opportunities for third countries, as stated by the Commission, in the presence of specific reciprocity provisions in sectors of public procurement, services and, to a certain extent, in the standards area. The EC wished to negotiate, in the Single Market context, the extension to third countries of benefits which had been available to EC companies operating abroad. He requested the Communities to explain on what GATT basis it justified the exclusion of important sectors such as agriculture from its preferential agreements.

168. The EC had failed so far to provide third countries with institutional opportunities to comment and to express their interests in the process of decision-making. Given the great responsibilities of member States in implementing EC policies, future reports on the EC should focus much more closely on national developments within the Communities. The United States was not convinced that existing procedures at the EC level were adequate to monitor their practices.

169. The representative of New Zealand urged the Communities not to lose sight of the trade-distorting effects of export subsidies which were of major concern to several contracting parties.

170. The Chairman, referring to a proposal by several participants, encouraged the European Communities to respond to specific questions in writing and to transmit the responses to the Secretariat for distribution to the contracting parties.

VII. RESPONSES BY THE REPRESENTATIVE OF THE EUROPEAN COMMUNITIES

171. The representative of the European Communities thanked the participants for the range and depth of their interest in EC policies. He would do his best to respond to the more general issues during the meeting and to provide written replies to the more detailed questions. He wondered, however, whether there was a genuine interest in discussing trade policies or rather its mechanics. Nevertheless, he would take home the comments made for further reflection. This applied equally to the representatives of the member States in areas where these were more directly concerned, for example certain internal taxes and internal assistance to industry.

172. The Community had entered a crucial phase in the development of its trade policy. Examples were the Uruguay Round and its consequences for a wide range of EC policies; the Internal Market process, which would continue until the end of 1992; and the changes in central and eastern Europe, which had already led to some reforms in EC trade policies and would certainly lead to more. His comments should be set against this background of a long sequence of fairly intensive changes.

173. The 1992 programme would provide an engine and not a break for multilateral liberalization. The programme ran parallel to efforts in the Uruguay Round in three main areas, namely standards, public procurement, where the EC had already decided to extend its rules to areas not covered by the current GATT Agreement, and removal of internal barriers.

External versus internal trade

174. The discussions during the meeting had revealed some misinterpretations regarding the development of import flows over time. For example, a table in the Secretariat report showed developing countries' share in total EC imports falling over the years 1981 to 1989. These years, which were convenient for statistical purposes, could give a distorted picture. In 1981, oil prices and commodity prices in general had been extraordinarily high and, therefore, a certain number of developing countries had held a particularly prominent trading position. The subsequent fall in trade shares was mainly attributable to changes in oil prices and the relative decline in prices of other, especially agricultural, commodities. Even behind these figures there were considerable variations. Table I.8 of the Secretariat report showed that the shares of the Middle East and Africa had deteriorated, whereas Asia and Latin America had improved or maintained their share in EC imports. This closer look showed some of the pitfalls involved in this kind of statistical analysis.

175. The representative of the European Communities also doubted whether the attention devoted to developments of intra- versus extra-EC trade over time, and to some other EC internal issues, was really warranted. Charts in the Communities' own report provided a general picture of stability. EC imports, as a percentage of GDP, had been stable over a very long period from 1960 to 1990, with some peaks in the 1970s and 1980s, while imports of

manufactures had grown consistently in proportion to GDP. This was certainly not a market that was closed or difficult to penetrate. The EC compared favourably with other major partners. The United States had started off a long way below the Communities and had reached the EC level only in 1985. No such trend was discernible for Japan. A comparison between intra- and extra-imports of merchandise would lead to conclusions different from those offered by the GATT Secretariat. The appropriate chart in the EC report showed that, at least in the last five years, external imports had been growing more rapidly in volume than internal trade. While both of these flows were very dynamic and very important for world trade, extra trade had performed particularly well and should not give rise to any source of criticism.

Preferential trade

176. Among the various groups of EC preferential trading partners, all situations, whether growth or decline or stagnation in imports and exports, could be observed over a twenty-year period. While the Lomé countries had lost market shares despite the fact that they had the most extensive preferences of any partner, the ASEAN countries had advanced substantially even though they had no specific preferences in addition to standard GSP treatment. The OPEC area had lost in importance, for obvious reasons, whereas the Mediterranean basin had expanded its share. Therefore, the representative of the Communities thought it appropriate to conclude, as in the EC report, that trade preferences in themselves were not sufficient to increase or even maintain trade flows. Many other factors were at work in a complicated economy like that of the Communities, and the existence of preferences in itself should not cause great alarm, if analysed over a lengthy period.

177. A further and more political question to be discussed in this context was whether the preferential arrangements were discriminatory and whether they fully respected the m.f.n. principle. From the Communities' point of view, its arrangements under Article XXIV of the GATT were complementary to the multilateral system. Regional dismantling of barriers could provide new impulses to growth which would work through into a dynamic expansion of world trade. Developments in EC internal trade and in EFTA/EC trade clearly supported this proposition.

178. The final outcome of negotiations with EFTA members and eastern European countries was still open. The EC was prepared to enter an area with the EFTA countries well beyond the provisions of the General Agreement. Other countries could not claim to be discriminated against in that context. Issues such as joint decision making or joint approaches to setting standards were not covered by any provisions in the General Agreement. Support for the eastern European countries was highly politically motivated, both in terms of direct economic assistance by the Communities and to improvements in market access. The EC had already concluded new agreements with all those countries, involving substantial changes in its trade régime. He did not expect any contracting party to question the basic objectives of this policy. The results of the negotiations would be presented to the GATT in the usual way, and there was

no reason to suppose at this stage that they would not be GATT-consistent. Moreover, the eastern European countries were aiming at far-reaching solutions which would cause fewer problems in the GATT.

179. Agriculture was generally not excluded from the EC preferential agreements, for example from the Mediterranean agreements. Although agriculture might be only partially covered, he could think of no case where the EC had aimed to exclude this sector as a guiding principle. The Communities adhered to the GATT obligation that substantially all trade must be covered.

Subsidies

180. Important material on subsidies had been provided in the Secretariat report. This was drawn from an analysis of the EC rules on competition and from information provided under these rules by the EC. He did not consider this to be a GATT issue, since the intentions of the Community in terms of Economic and Monetary Union went further than the GATT. In the GATT context, the Community had always tried to respect its procedural obligations. However, many subsidy issues were the responsibility of member States, and it sometimes proved difficult for the Commission to collate all the information provided. If contracting parties felt that obligations under the GATT were not being respected, they should raise the issue in the appropriate fora.

Voluntary restraint arrangements

181. The table on voluntary restraint arrangements in the Secretariat report included a large number of different types of measures, not all of which were restrictive. Statements suggesting that there was a network of some 50 restraint arrangements were much too simplistic. For example, surveillance actions on the part of the EC were merely statistical operations, and export moderation by the Communities' trading partners was an issue to be clarified with these countries, not with the EC. He had never regarded moderation as a matter of numbers and ceilings, it was something much more vague. Measures in the textiles area were related to the Communities' trade régime, which was fully set out in the EC report. It just happened that a number of the relevant arrangements were informal in character. In the area of steel, the EC had chosen not to impose comprehensive restrictions but to make arrangements with main suppliers so that large segments of trade continued to flow. As stated in the EC report, these flows had increased since the system had progressively been liberalized.

182. The EC had felt over recent years - and it was not the only contracting party to reach this conclusion - that voluntary arrangements were sometimes a better way of resolving difficulties. This was related to the long discussion about Article XIX and its application. The negotiations in the Uruguay Round had indicated that the so-called "grey area" measures could be phased out according to an agreed timetable as and when a new agreement on safeguards was adopted. At that moment, the Communities would decide which measures would be continued and would then

be justified, and which would be eliminated. He envisaged that many of these arrangements would be eliminated, especially those which had a regional impact within the EC. After 1992, it could even prove impossible to enforce restrictions on a regional basis within the EC.

Restrictions by member States

183. The EC representative emphasized that national restrictions within the Communities were only permitted if they were acceptable at the EC level. The Annex to Council Regulation No. 288/88, which had been referred to during the discussions, merely enumerated notified and approved derogations from the EC general import policy, which did not permit quantitative restrictions. The Annex did not establish quota figures, as implementation still remained in the hands of the national authorities. If third countries felt that there was a lack of transparency, the relevant information should be sought from the member States concerned. The EC representative stressed that the use of Article 115 was very strictly controlled by the Commission, and that these controls were likely to be further tightened during the 1992 process. In fact, many of the national quantitative restrictions would have to be eliminated. Some decisions still had to be taken.

184. Referring to the possibility that restrictions might be introduced or enlarged at the Community level, he said that he was not aware of any such intentions, with the only possible exception of automobiles. Existing restrictions at the EC level in areas such as textiles would be included in a liberalization process, subsequent to a successful conclusion of the Uruguay Round. He felt there were some misconceptions regarding the use of Article 115. The central question for third countries was the restrictiveness of the external trade barriers which Article 115 was designed to reinforce. In this connection, however, the EC report had given indications of substantial liberalization measures vis-à-vis eastern Europe, in the rollback context of the Uruguay Round, and with respect to Japan. These changes would continue with the Single Market process and with a successful Uruguay Round. He expected the next TPRM report on the EC to be able to confirm this view.

185. The banana sector was a good example, in the Secretariat report, of changes which must be made in the Internal Market context. The EC would have to replace the present very complex system by a more uniform approach. The EC representative expected more competitive suppliers to benefit from any changes. This would be in line with the general thrust of the Internal Market programme to increase the competitiveness of EC producers and help them confront a competitive environment.

Agriculture

186. According to the EC representative, the Community was completely convinced of the need to reform its agricultural policy. It had already taken a number of measures aimed at reducing production, especially in surplus areas, which contributed to easing trade tensions. Like its OECD partners, the EC had accepted in 1987 that agricultural policies had to

move towards increased market orientation; and the EC intended to carry that out. It was in this spirit that it had subscribed to the objectives of the Uruguay Round. These negotiations would certainly result in agricultural policies that were much more market responsive. However, a fair balance of commitments by all participants had to be ensured.

187. Another strand of EC agricultural reform was related to internal policy needs. The EC representative stressed that there was no direct link between the external and the internal approach. Since the internal debate was focusing on different policy aspects, it would not lead to a new negotiating offer. The ideas on reform which he could outline at this juncture had only been put forward to the EC Council of Ministers for discussion. They were not as yet, in any sense, part of EC policies although they could perhaps be considered as a basis for specific proposals and policy decisions in due course.

188. The Commission felt that, for various reasons, previous reforms had been less successful than expected. A series of problems remained such as the continuing imbalance between supply and demand; the budgetary costs of maintaining the policy; negative environmental effects of the trend towards more intensive farming; biases in the distribution of budgetary resources among farmers; and the limited effectiveness of the established support system for the majority of farmers. The Communities recognized the existence of strong international interdependence in the agricultural sector. It accepted its responsibilities as the leading world importer of farm products and the second largest exporter on world markets. Through a policy which encouraged a more competitive and efficient agriculture, it intended to remain an active participant both with its imports and exports.

189. The traditional instruments of price policy and quantitative controls would continue to play central rôles in order to obtain market balance. The objective was to reduce surplus production further and to ensure an environmentally sustainable form of agriculture and of food quality. Policy support should no longer be based so exclusively on price guarantees. The possibility of granting direct aid was being examined. Schemes under consideration were in general based on livestock numbers or the area of farms, adjusted according to size. These approaches needed to be integrated into an overall policy.

190. In the cereal sectors, as an example, price reductions to a level which would ensure competitiveness with cereal substitutes were considered. Income losses to producers might be compensated by some sort of area-related support scheme, on a degressive basis. Another option was to make payments conditional on setting aside part of the land devoted to cereals and arable crops. Similar systems might be applied to oilseeds and protein crops, in a way that would ensure the full implementation of the recommendations of the GATT Panel which had examined the Communities' support system for soyabeans. The new arrangements would replace the "stabilizer scheme" and "co-responsibility levies". The reduction in cereal prices would also allow price adjustments in the livestock sector.

191. The Commission also believed that the quotas in the dairy sector must be reduced in view of the market situation; however, details were still to be worked out. In other sectors, such as sugar and tobacco, similar reforms were envisaged in the immediate future in order to ensure a coherent policy approach.

192. Referring to comments on the agro-monetary system, the EC representative held the view that it could hardly be brought in line with the logic of an Economic and Monetary Union. However, the detailed decisions were still to be taken. As far as possible, the Commission had always tried to limit the impact of monetary compensation measures.

193. The small share of agriculture in the Communities' GDP did not adequately reflect the political problems involved in any reforms. Such average figures masked wide variations among the member States and regions. Furthermore, the importance of agriculture would be considerably higher when expressed in terms of employment and when the food processing sector was also taken into account.

Anti-Dumping policy

194. Statistics on anti-dumping investigations could be misleading since they usually covered only complaints which had reached a certain formal stage. The fact that half of the complaints were not pursued to this stage illustrated the strictness of the EC procedures. Only a small range of trade was affected by actual anti-dumping actions. Though there were uncertainties for importers who felt that their deliveries were at risk, it had to be borne in mind that the Commission usually did not receive complaints unless there were problems in the markets. Certain exporters were exploiting the rules of competition to the maximum as indicated, for example, by margins of dumping which quite often went into to double and treble figures. Affected suppliers always had the possibility of judicial review by the EC Court of Justice.

195. There was no clear evidence on how anti-dumping actions had developed over time. The number of cases might have fallen, but larger volumes of trade might have been involved in recent investigations, due to the more complicated nature of the products.

196. Referring to recommendations that the Communities should look for remedies through the price mechanism, the EC representative noted that this was already the case since dumping problems were very often solved by price undertakings. Alternatively, the exporter could have a duty assessed. Thus, price undertakings should not be confused with voluntary restraint arrangements.

EC decision-making procedures

197. As a rule, common policies, whether Regulations, Directives or Decisions, were established under a common legal framework at the EC level. Implementation was left with the national administrations. This was certainly preferable to complete centralization in Brussels. There could

be some elements of excessive flexibility whenever domestic policy issues were at stake, for example, questions of standardization and implementation, of public procurement, and of assistance to industry for adjustment purposes or for modernization. The EC representative acknowledged that, in the light of the comments made, it might be appropriate to review current practices within the established legal system. However, he also noted that the Commission already possessed its own means of checking member States' practices, that it evaluated information provided by affected trading partners, and that it could finally refer a case to the Court of Justice. In his view, irritations on the part of trading partners resulted essentially from unfamiliarity with an admittedly complex system of decision making and implementation, and not from a genuine lack of transparency. For example, discussions on anti-dumping issues and rules of origin had already shown that the EC rules and procedures were transparent. He hoped that the Trade Policy Review Mechanism would contribute to familiarizing trading partners further with the EC institutional machinery. Moreover, the Communities' delegation in Geneva and the Commission in Brussels could always be approached through the Embassies and Missions.

Reciprocity

198. Reciprocity was mainly an issue in the services field. Since the EC had a very open system in many areas, particularly in financial services, and since it was about to open up some other sectors, it wished to ensure a fair and balanced outcome of the on-going negotiations. The relevant provisions in EC legislation, also in the procurement area, were merely designed to establish a negotiating position.

Environmental policies

199. Various parts of the Secretariat report on import and export controls had pointed to a number of EC regulations in this area. The guiding principles were set out in Article 36 of the EEC Treaty which actually mirrored Article XX of the GATT. The trade impact of environmental regulations should be tackled collectively. Accordingly, the EC was willing to adopt more precise criteria in line with any multilaterally agreed judgements.

Standards

200. Agreements on mutual recognition of testing and certification were a question for future negotiations. In many areas the EC had replaced its more classical approach towards harmonizing standards by a more generalized approach where only essential criteria were established in technical regulation. Other elements were left for the concept of voluntary standardization and mutual recognition. Anxieties that the EC would harmonize at more restrictive levels could no longer be justified under such a system. The essential element was to ensure high levels of consumer protection.

201. The recognition of tests was a highly technical question which was not directly covered by the GATT Standards Code. It was often a matter not for Governments but for testing bodies, laboratories, and other relevant organizations. As the EC was aware that a number of its trading partners were interested in negotiations, it would submit proposals in due course. However, even now trading partners had full access to testing bodies within the EC. Wherever the EC arrangements for mutual recognition applied, one test result would entitle free circulation throughout the Communities. This marked a considerable improvement for third countries compared with the traditional system, which required several tests in the member States.

GATT and EC law

202. The EC representative noted that there was some confusion about the legal status of the GATT in EC law and in the member States. While the European Court of Justice had laid down several rulings to this effect, there were certain doubts whether or not the GATT was directly applicable in all member States. However, he felt that the Commission could intervene in any case and take the matter to the Court of Justice for settlement. The existing variety of individual arrangements by the member States, which dated back to the early days of the GATT, could be covered by a broader institutional setting to be negotiated in the Uruguay Round. The EC was fully prepared to enter into such an arrangement.

Further issues

203. As for the sectoral coverage of the TPRM reports, the Communities wished to reconsider for future cases, especially for the major participants, whether or not it was sufficient to base the analysis only on the merchandise sector. Since economic activities were becoming increasingly complex, it appeared inevitable to look at the inter-play of all major economic forces, including those in the areas of services and investments. They had an immediate impact on traditional merchandise trade, as shown by the direct trade-off between exports and foreign investment.

204. The EC representative felt that the discussion on dumping issues had been too narrow. There was a need for a future debate about competition rules on a broader scale. It could include some elements of monopoly situations, dominant positions, mergers between large international corporations, restrictive business practices and similar areas.

205. A further general problem related to policy responses to structural adjustment. In general terms, solutions were needed for the typical case of large industries which faced decline over longer periods than foreseen in Article XXV.

VIII. CONCLUDING REMARKS BY THE CHAIRMAN

206. Over the past two days, the Council has reviewed, and collectively evaluated, the full range of the trade policies and practices of the European Communities, and their impact on the functioning of the multilateral trading system. While this is the tenth review in the framework of the Trade Policy Review Mechanism, its character is exceptional because it covers several contracting parties at the same time, namely the 12 EC member States. In these concluding remarks, I wish to highlight, on my own responsibility, some of the salient features of the discussion. These observations, of course, are in no way meant to substitute for the appreciation by the Council of EC policies and practices. The full record of the discussions, including detailed points made, will be reflected in the minutes of the meeting.

207. Many Council members stressed the important rôle of the EC in the multilateral trading system, both as a market and as a source for goods traded internationally, and as one of the trendsetters in trade policy. This rôle called for effective leadership to the benefit of all contracting parties. Council members emphasized the particular need for transparency in the Communities' policies having regard both to the importance of the Communities and the complex and multi-layered process of trade policy formulation and implementation. A number of questions and requests for additional information were addressed to the Communities with respect to various aspects of its trade policies and practices.

208. The Council noted that the EC trade régime was in a process of rapid transformation. This process resulted from a variety of initiatives, including the Uruguay Round; the Single Market programme; and ongoing European integration through negotiations on an European Economic Area and on association agreements with countries in central and eastern Europe. Many participants emphasized that regional liberalization should be conceived as a step towards freer trade at the global level, and that internal liberalization must go hand in hand with external liberalization of the EC trade régime in order to support and develop the multilateral trading system.

209. Some members noted that the process of EC integration provided, on a regional basis, a valuable example of the benefits that could be gained from broader multilateral liberalization and cooperation. Over the past three decades, trade among EC member States had expanded very rapidly as compared to trade with third countries. It was therefore welcomed, and considered reassuring, that the EC had expressed full support for further developing and strengthening the multilateral system and bringing the Uruguay Round to a successful conclusion.

210. Participants recognized that the incidence of tariffs and non-tariff measures over a wide range of industrial products in the Communities was relatively low. The high level of tariff bindings was noted.

211. The positive attitude of the EC in avoiding unilateral approaches to dispute settlement was emphasized.

212. Several Council members acknowledged that a number of recent policy changes had increased the transparency of certain EC trade regulations and procedures, and improved market access to the Communities. This applied, for example, to some aspects of standardization. Some trade restrictions which had been in conflict with the GATT had also been lifted in recent years. These included the elimination of unilateral quotas, mostly of a discriminatory nature, by several EC member States.

213. While recognizing the market-opening effects of regulatory changes in the Single Market context, it was emphasized that there was need to ensure that the dynamic process of harmonizing EC legislation or regulations would not favour harmonization at the most restrictive levels existing among member States. Members of the Council welcomed the fact that the movement towards a Single Market had not been accompanied by an increase in protection. But concerns were expressed about possible future developments, inter alia in the area of standardization.

214. Many Council members questioned whether reform efforts by the EC and by member States, some of which are linked to the EC's contribution to the Uruguay Round, in traditionally highly protected sectors were far-reaching enough, given the Communities' responsibilities as one of the key players in the GATT system. In this context, particular concern was expressed with respect to agriculture, coal, textiles and clothing, steel, automobiles, and some high-technology industries.

215. Several Council members called particular attention to the distortions created in world markets by the operation of the Common Agricultural Policy. High support prices, underpinned by variable levies, had led to excess production of many temperate-zone agricultural products, at considerable cost to consumers and taxpayers. The variable levy system had virtually blocked market access for many efficient third-country exporters, including countries whose economies were more heavily dependent on agriculture than those of the EC. Subsidized exports contributed to depressing and destabilizing world markets for many products, thus shifting the adjustment burden to other trading partners. The consistency between the EC's policy approach in agriculture and its own objective, under the Treaty of Rome, "to contribute, in the common interest, to the harmonious development of world trade" was called into question. It was also suggested that the Common Agricultural Policy was having an adverse impact on the quality of the environment. Overall, it was emphasized that what was involved was a structural change in agricultural policies. The hope was expressed that present proposals for reform of the Common Agricultural Policy would remove many of the distortions and help pave the way for a successful conclusion of the Uruguay Round.

216. Mention was also made of the complexity of the EC's current régime in the textiles and clothing sector and the internal procedures for quota allocation among member States. The enlargement of the EC Single Market through German unification should involve quota increases for MFA and other restrained suppliers. Reference was also made to the need for avoiding any adverse effects from the process of German unification on trading partners more generally.

217. Attention was drawn to the fact that, although many tropical products entered duty free, the average level of tariffs on agricultural products were substantially higher than that for manufactures. National revenue taxes, particularly on tropical products such as coffee and cocoa, denied exporters the benefit of low or zero tariffs, and restricted consumption. Some of these had been increased recently. Information was sought on future changes in the régime for certain tropical products, including notably bananas. Widespread tariff escalation in the area of natural resource-based products made it particularly difficult for developing countries, and others, to diversify their economies into higher value-added activities. More generally, numerous non-tariff measures maintained by the EC reduced the value of tariff bindings.

218. Participants highlighted the propensity of the EC to respond to structural adjustment problems by sector-specific approaches to trade policy. The minimal use by the Communities of safeguard action under Article XIX of the GATT as compared to the large number of selective restraint arrangements and anti-dumping measures was noted.

219. In this connection, considerable interest focused on export restraint arrangements. It was stated that these measures lacked transparency and were discriminatory, being usually targeted on the most competitive third-country suppliers. Many participants regarded this area as a particularly worrying feature of EC trade policies, being at odds with the EC commitment to a free and open multilateral trading system. Smaller trading partners were in an unequal bargaining position in dealing with demands for restraints from a trading power like the EC.

220. Many Council members viewed with concern the frequent recourse to anti-dumping procedures by the Communities. Reference was made to arbitrary methods used for determining injury and calculating anti-dumping margins, and to the excessive length of time taken for investigations. Several participants considered that these procedures were used as an elastic instrument of industrial policy rather than a legitimate defence against dumping, and they suffered from a lack of transparency. The low share of trade affected by definitive anti-dumping duties did not reflect the real impact of the policies on individual trading partners, including the uncertainties and disruption generated by the threat of investigation. Anti-dumping procedures had apparently been a factor in the proliferation of grey-area measures.

221. Reference was also made to the large element of discretion in the use of rules of origin by the EC which, it appeared to some participants, was calculated to influence decisions to invest and produce in the Communities.

222. Many Council members commented on the complex hierarchy of preferential trade agreements and trade schemes developed by the EC. They noted that there had been an increase in the proportion of the Communities external trade covered by such arrangements. The various preference schemes implied a considerable degree of differentiation in the treatment given to different suppliers. The element of differentiation would be accentuated with the new arrangements for the establishment of a European

Economic Area and for the association of the eastern European countries. Some participants stressed the contribution made by the EC's regional arrangements to the development and diversification of their economies. Some members emphasized the value of comprehensive regional trade liberalization in assisting the transition of their economies towards a market system.

223. While recognizing the benefits of the Communities' GSP scheme, some participants highlighted the complexity of its rules, including rules of origin; the exclusion of certain product areas; and the tariff quotas applied to sensitive products.

224. Council members sought more specific information on trade policies and practices at the level of member States. They asked whether procedures at Community level were sufficient to coordinate and control all trade-related policies by member States, and whether there were adequate mechanisms at Community level for the review of such policies. Despite disciplines at the EC level, national subsidies intrade-related areas were still widespread. Numerous direct and indirect trade-distorting measures appeared to be in place at the national level. The hope was expressed that the Single Market process would lead to a complete phase-out of such measures, including supportive restrictions under Article 115 of the Rome Treaty, rather than their transformation into EC-wide quotas. National and Community preference was seen as an inhibiting factor for trading partners' access to the public procurement market, representing some 15 per cent of Community GDP.

225. It was suggested that the complex pressures operating on policy formulation in the Communities made highly desirable the establishment of an independent review body to assess the impact of trade policy measures as a whole. It was also suggested that the policy-making mechanisms should permit trading partners' views to be taken into account before decisions were taken.

226. Responding to these comments and questions, the representative of the European Communities emphasized the unique nature of the process of EC integration, and the fact that the Communities' policies were in rapid change. This process was expected to induce higher economic growth in the EC, and thus boost import demand. In his view, this process would lead to a more streamlined and liberal EC trade régime, to the advantage of all contracting parties. For example, the principle of mutual recognition would open access to the markets of all member States once a product was accepted on one EC country.

227. Guiding principles for EC action on environment were set out in Article 36 of the Treaty of Rome, which mirrored very closely Article 20 of the GATT.

228. Looking at the development of external versus internal trade flows would give no clue to the effects of the Communities' trade régime. The longer-term development of imports into the EC, including imports from

developing countries, would stand up well against the import performance of other major world traders.

229. The Communities viewed regional liberalization as a complement to, and as a way of promoting, multilateral liberalization. The negotiations on an European Economic Area were still underway. To comment on the results would be premature. The Communities had been at the centre of assisting central and eastern European countries in their reform process over the past eighteen months. The ongoing negotiations on association agreements with countries in central and eastern Europe would, it was hoped, make a major contribution to European political stability. The results would be presented to the GATT.

230. The great variety in the importance of agriculture to individual EC member States needed to be taken into account, which was an important factor in shaping the Common Agricultural Policy. The Communities were completely convinced of the need for reform. The EC had subscribed to the agreed objectives of the Uruguay Round in this area, and was seeking a balance in results among negotiating partners. Internal efforts of agricultural reform were also underway, however, there was no direct link with the Round. At this stage only preliminary indications could be given of the Commission's general orientation as regards possibilities for policy reforms; these included, in the light of unsatisfactory results of earlier reform approaches, a rethinking of the objectives of agricultural policies. The EC accepted the responsibilities resulting from the interdependence of agricultural markets worldwide. Traditional elements of price and output control would continue to have a central rôle, but more emphasis would be put on direct aid and income aid. In cereals, the objective would be to reduce prices to the level of competitive imports, compensation up to certain limits being paid to farmers for income losses. This approach would also be applied to some other products. In the dairy sector, the present quotas would have to be reduced, through a case-by-case approach, to balance supply and demand. For the sugar, tobacco and livestock sectors, reforms of a comparable nature would be envisaged in the near future. The agro-monetary system would have to be reviewed in the light of the EC movement towards monetary and political union.

231. Agriculture was not completely excluded from preferential arrangements. In this context, no sector was excluded as such.

232. The resort to export restraint arrangements by the EC was sometimes overestimated. Although the Communities regarded such arrangements as a convenient way of resolving trade problems with particular suppliers, many of the measures involved import surveillance or export monitoring rather than quantitative restrictions. Also, it was well known that the Communities' policy in this area was related to the long-standing discussion of Article XIX reform. The EC would agree to phasing out grey area measures if the Uruguay Round led to a satisfactory new safeguard agreement.

233. Insofar as the use of anti-dumping measures was concerned, the complaints regarding lack of transparency were exaggerated. Formal

investigations were undertaken only if complaints by affected parties were sufficiently substantiated, and the amount of trade affected remained limited. The uncertainty created was not altogether unrelated to objective factors.

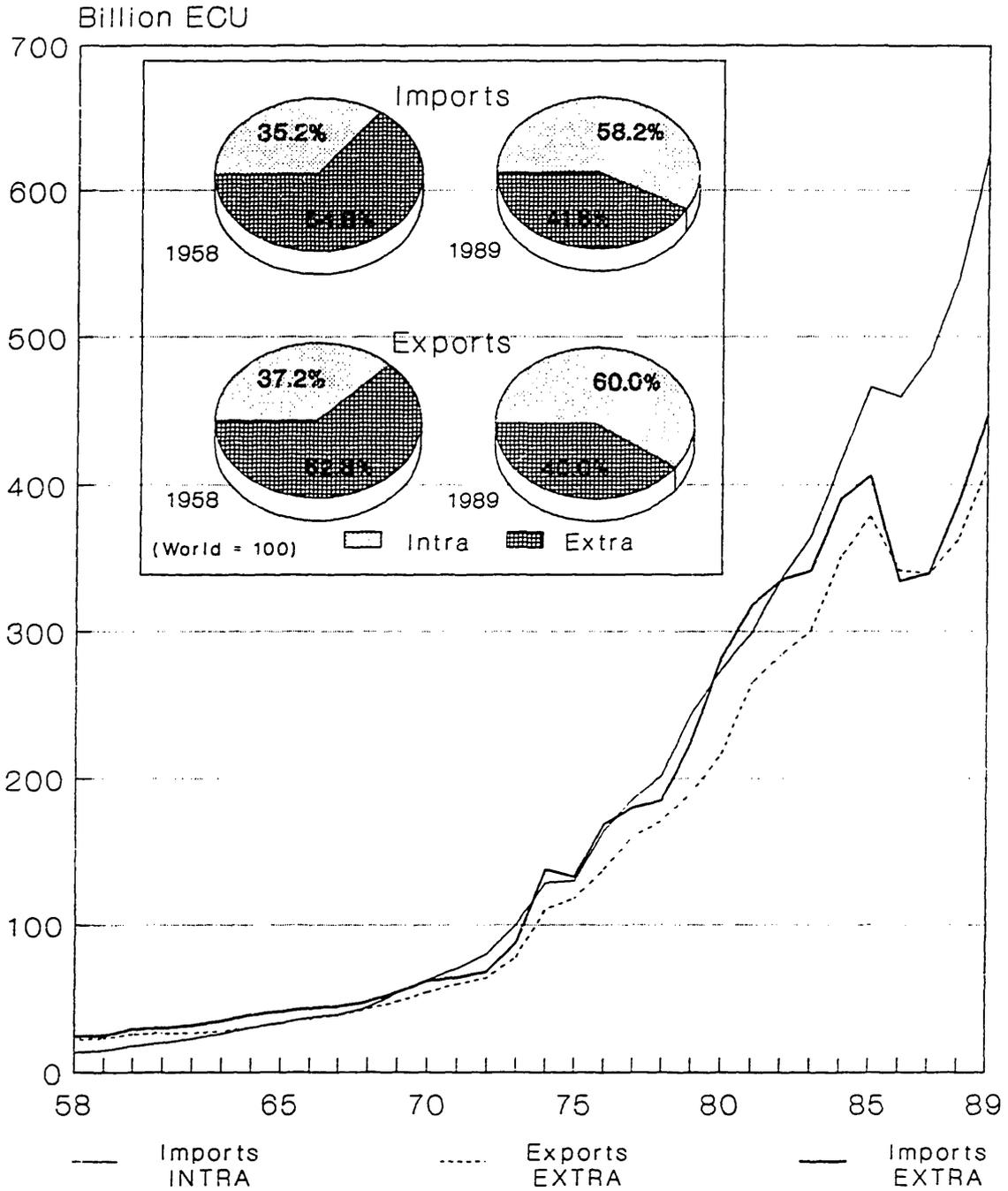
234. The Communities had always respected its obligations to notify subsidies within the GATT. These obligations should not be confused with EC internal requirements which went beyond the scope of GATT.

235. Some of the concerns expressed concerning standards setting and the recognition of testing and certification in the context of the move towards a Single Market were unfounded. Further work on standards would be based on the concept of essential requirements rather than an approach of harmonization.

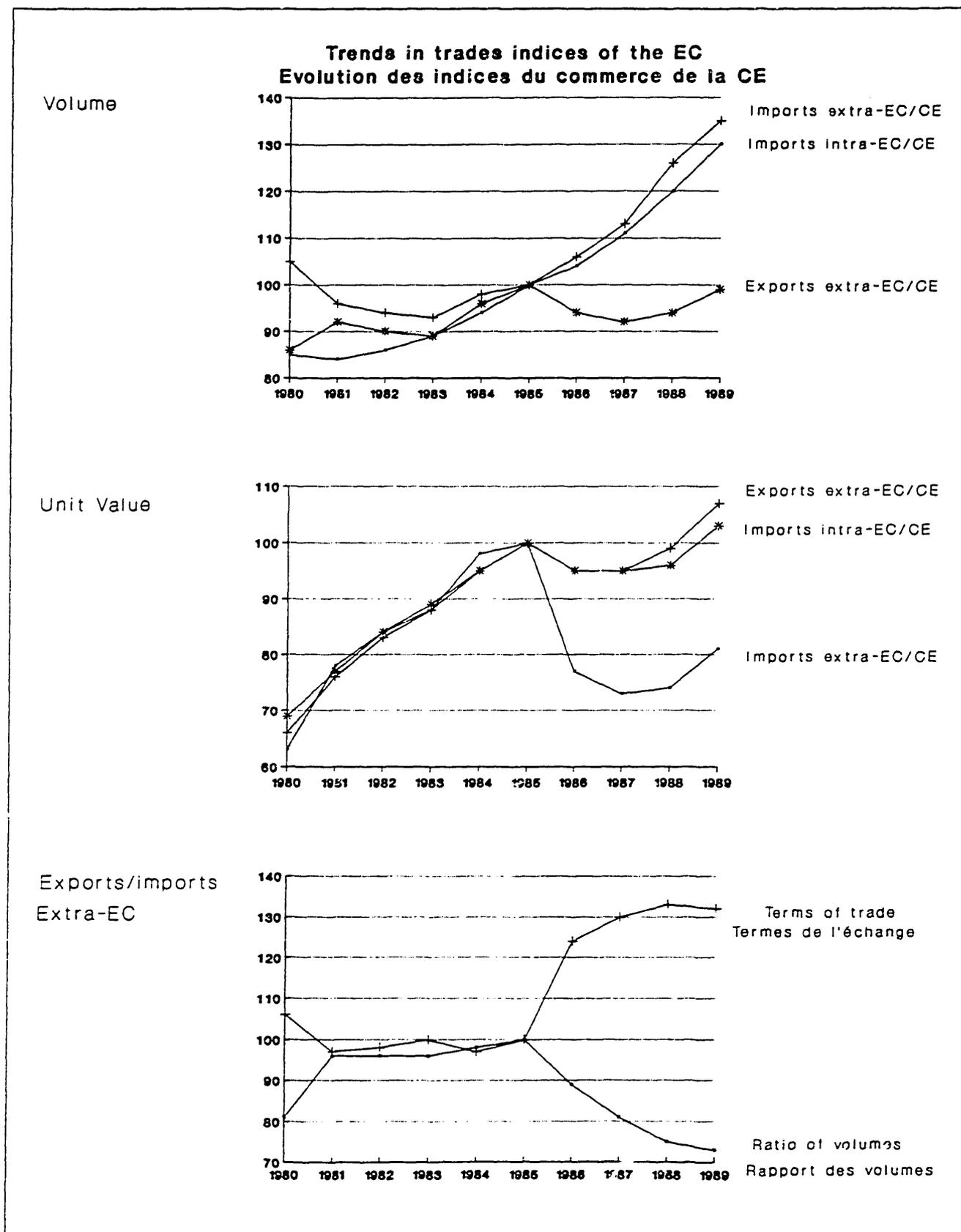
236. National restrictions within the EC were only approved if they were consistent with Community legislation. Quotas were established at the national level; information would have to be sought from individual member States. The use of Article 115 of the Treaty of Rome was strictly controlled by the Commission. Many of the member States' restrictions would be eliminated with the completion of the Single Market process, even though some decisions still had to be taken. Except for motor vehicles, it was difficult to envisage cases where national restrictions would be transformed into measures at the EC level.

237. In conclusion, the Council recognized that substantial progress had been achieved in the Single Market context. It was important to ensure that internal trade policy reform in the EC served as a catalyst for current efforts to strengthen the multilateral trading system. In framing its trade policies the EC should ensure that they developed in a manner consistent with basic GATT principles. In this context, the Communities had a major contribution to make to the Uruguay Round, and to a further reinforcement and strengthening of the global trading system.

Trends in trade of the EC



Note: Graph supplied by the Delegation of the European Communities.



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