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THE EUROPEAN COMMUNITIES RESPONSE TO NEW
INTERNAL AND EXTERNAL CHALLENGES

"Available information suggests that the implementation of the Internal Market programme has improved access, transparency and legal security in many sectors," says the GATT Secretariat's new report on the European Communities' trade policies and practices.

Looking back over the period since the GATT's first such review of the EC in April 1991, the report notes that the EC has removed many long-standing residual national trade restrictions protecting individual member States' markets from external supplies, especially of Asian or central and eastern European origin. In a number of industries, the EC has taken steps to harmonize the regulatory framework among member States, ease entry barriers, and inject competition into hitherto strictly controlled areas. For example, considerable efforts have been made to reduce distortions resulting from state monopolies in the telecommunications sector. In pharmaceuticals, issues such as approval criteria and the mutual acceptance of tests have been addressed through comprehensive EC directives. Most coal-producing member States have liberalized their policies in this sector or decided on major adjustments.

In the steel sector, movement towards restoring market mechanisms has continued, as shown by the expiry of voluntary restraint arrangements and a tighter rein on subsidies. "However," says the report, "with stronger import competition, a dramatic decline in domestic demand and deteriorating export markets, compounded by countervailing and anti-dumping actions in the United States and Canada, the EC's resolve to defend these achievements is under challenge. Import surveillance remains in force and some imports from central European countries and Egypt have recently been made subject to anti-dumping duties or price undertakings."

The report also points out that in other sensitive areas, EC-wide arrangements with foreign suppliers or new EC restrictions "replace a previous maze of national restrictions." For example, a "consensus" with Japan on cars is intended to provide temporary and declining relief for EC producers, with the objective of full liberalization by the year 2000. In the banana sector, a tariff quota system is due to enter into force on 30 July 1993 which will apply to all member States, including markets that were previously completely open or covered by the EC's bound tariff of 20 per cent. Under a new market organization in the fisheries sector, imports of canned tuna and sardines are subject to EC quotas until the end of 1996.

Turning to the agricultural sector as a whole, the report maintains that "to date, there has been little change in the intensity of agricultural protection. Producer subsidy equivalent (PSE) levels in the order of 50 per cent for 1990 and 1991 suggest that, on average, about one-half of EC farm income results from policy intervention." However, in May 1992, the EC Council of Ministers agreed on an ambitious farm reform package which is to be implemented over a three-year period from 1993-94 onwards, focusing on cereals, beef and veal. Other supported areas, in particular milk and sugar, are largely unaffected by the reform package. "The changes imply a significant decline, from 1993-94 onwards, in levels of price support and, hence, the degree of policy distortion particularly in the grain sector," says the report.

Running parallel with, and partly prompted by, internal developments in the EC, a growing number of countries in the European Free Trade Area (EFTA), in central and eastern Europe and in the Mediterranean basin have sought to conclude new agreements with the EC, with the aim of securing and/or extending preferential market access, albeit with differing degrees of coverage and reciprocity. The report points out that this has encouraged the development of overlapping preferential trading systems within Europe: spreading outward from the EC to the European Economic Area agreements with EFTA countries, the Europe Agreements with central and eastern European countries, and parallel free-trade agreements among the latter countries and between them and the EFTA members. "These moves liberalize trade in many products but create an area of departure from the m.f.n. system, both among the signatories and towards third countries."

The report recognizes that the EC is self-committed under its New Commercial Policy Instrument not to take unilateral actions but to await the outcome of international dispute-settlement procedures. This has contributed to maintaining the integrity of established multilateral mechanisms. However, the report also warns that the recent imposition of quotas on steel deliveries from the then Czech and Slovak Republic may set a new tone. The Communities' recourse to the safeguard provisions under the new Europe Agreements seems to suggest that not only bilaterally-agreed preferences but also GATT obligations have been suspended.

"Trade policies in any administration are defined and implemented within a field of competing economic interests," says the report. "The current macroeconomic problems and uncertainties in the EC, compounded by

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adjustment pressures stemming from the Internal Market programme, the Europe Agreements and the need to integrate the east German economy fully with the EC may strengthen inward-looking interests. In these circumstances, more leeway in decision-making, possibly at the expense of contractual obligations, may be seen as an advantage, enabling policy-makers to respond swiftly and pragmatically to challenges. Without a stable and effective framework of multilateral rules and disciplines, however," warns the report, "such decision-making may be vulnerable to short-term pressures and vested interests."

Notes to Editors

1. The GATT Secretariat's report, together with a report prepared by the EC, will be discussed by the GATT Council on 17-18 May 1993. This is the second review of the EC since the launching of the Trade Policy Review Mechanism (TPRM) in December 1989. The TPRM enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.
2. The current reports, therefore, cover developments during the last two years in all aspects of the EC's trade policies, including domestic laws and regulations; the institutional framework; trade-related developments in the monetary and financial sphere; trade practices by measure and trade policies by sector. In addition, the Secretariat report seeks to trace the impact of, and inter-actions between, individual policy areas deemed to play a central rôle in the Communities' integration process and in the framing of its external relations (e.g. anti-dumping and competition policy). Attached are summary extracts from these reports. Full reports are available for journalists from the GATT Secretariat on request.
3. A record of the Council's discussion and of the Chairman's summing-up, together with these two reports, will be published in Summer 1993 as the complete trade policy review of the EC and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.
4. Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990 and 1992), Korea, Rep. of (1992), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

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TRADE POLICY REVIEW**EUROPEAN COMMUNITIES****Report of the GATT Secretariat - Summary Observations**The Economic Environment

Following the strong economic upturn in the years 1986-90, when average growth rates exceeded 3 per cent, the EC economy lost momentum and entered a period of stagnation or, in some member States, even recession. Overall economic growth fell to about 1 per cent in 1992. Only France and Ireland showed higher growth than in 1991.

This slowdown reflected both internal and external factors. Persistent macroeconomic imbalances in certain member States had an adverse impact on currency markets, consumer sentiment and investment decisions. The demand effects of German unification initially helped to maintain growth in Germany itself and, to a lesser extent, in other member States, but its fiscal and monetary consequences later imposed an additional brake on the EC economies. Economic slowdown in important foreign markets, including most EFTA countries, the United States and Japan, and an appreciation of European currencies against the dollar compounded these difficulties, which were not significantly counterbalanced by improvements in other markets.

The EC's merchandise trade deficit with all its major partners widened in 1991. Among the member States, only Denmark, Germany and Ireland ran merchandise trade surpluses, and the German surplus was much reduced from 1990.

Currency turmoil in the second half of 1992 brought long subdued macroeconomic tensions to the surface. In mid-September 1992, the United Kingdom and Italy suspended the participation of their currencies in the European Exchange Rate Mechanism (ERM) which, under the Maastricht Treaty, is intended to serve as the basis for a common EC currency. In several other member States, the defence of parities led to continued monetary tightening, exacerbating an already difficult environment for long-term investment decisions.

The Communities' strong economic growth in the late 1980s appears to have been stimulated by the Internal Market programme and to have minimized economic frictions resulting from the implementation process. By contrast, the present downturn has both reduced growth impulses stemming from the programme and compounded the pressures arising from external challenges, such as the transition in central and eastern Europe and the former Soviet Union and the stalemate in the Uruguay Round. This has increased the risk that more defensive trade policies will be followed.

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Developments in the Institutional Framework

Internal developments in the EC - the world's largest trading entity - cannot be separated from their effects on the international environment. Any steps to "deepen" or "widen" the Communities, by intensifying integration among current members, or extending its geographical scope, are bound to impact on the multilateral system.

The Single European Act of 1987 provided the legal and institutional framework for "deepening" the EC integration process, establishing "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured". Under the Act, the scope of qualified (two-thirds) majority voting by members States in the Council was extended from agricultural and commercial policy to virtually all issues relating to the Internal Market. This enabled progress to be made on deregulating and harmonizing national trade practices.

At the same time, partly prompted by the increasing pace of EC integration, a growing number of countries in the European Free Trade Area, in central and eastern Europe and the Mediterranean basin have sought to conclude new agreements with the Communities, with the aim of securing and/or extending preferential market access, albeit with differing degrees of coverage and reciprocity.

The Treaty on European Union (the Maastricht Treaty), signed in February 1992, but not yet ratified by all member States, aims to open new areas of integration. While maintaining existing EEC policy responsibilities in the field of trade, the Treaty seeks to extend the scope of Community action, *inter alia*, through economic and monetary union, including the introduction of a single currency by 1 January 1996 or 1999 at the latest. The relevant decisions are to be taken by the Council, meeting in the composition of Heads of State or Government, based on the performance of each member State with respect to four eligibility criteria (price stability, fiscal balance, exchange rate stability within the ERM, and convergence of long term interest rates). In mid-1992, only France and Luxembourg would have met the benchmark values.

Trade Policy Features and Trends

Harmonization in the Internal Market

Over the past two years, the EC has removed many long-standing "residual" national trade restrictions protecting individual member States' markets from external supplies, especially of Asian or central and eastern European origin. Some of these measures may already have become obsolete in the process of internal and international structural change, and the abolition of others may have been aided by the generally favourable macroeconomic climate during the second half of the 1980s. No decision had been taken, at the time of writing, on the treatment of remaining non-liberalized products, such as footwear, textiles and toys, from certain east European and Asian countries, China and Cuba.

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The legal provisions of Article 115 of the EEC Treaty (which allows member States to erect national barriers, with the approval of the Commission, against indirect deliveries of imported goods) remain in force. However, the Single European Act provides no scope, as from 1 January 1993, for any internal trade measures against imports from external sources. The number of new Article 115 restrictions authorized has fallen from 119 in 1990 to 48 in 1991 and 8 in 1992. The single market also implies that substitutes for internal border measures, such as national registration and type approval procedures, will no longer be available.

While the Communities' bilateral restraint agreements on textiles and clothing under the MFA remain in force, national import quotas within the system were abolished with effect from 1 January 1993. Although restrained suppliers have agreed to cooperate to avoid sudden and prejudicial changes in traditional trade flows, the creation of a unified EC market in the sector should enhance flexibility for such exporters.

In certain sensitive areas, EC-wide arrangements with foreign suppliers or new Community restrictions are to replace a previous maze of national restrictions.

- A "consensus" with Japan on cars, containing regional market forecasts, is intended to provide temporary and declining relief for Community producers, with the objective of full liberalization by the year 2000. Open questions appear to include the allocation of Japanese supplies among car categories and producers; the adjustments required on both sides if demand forecasts are not fulfilled; and the application of the consensus to new member States joining the EC before 2000.
- In the banana sector, a tariff quota system, with very high duties on over-quota supplies, is due to enter into force on 30 July 1993. The new system will apply to all member States, including markets that were previously completely open (Germany) or covered by the Communities' bound tariff of 20 per cent. Affected Latin American suppliers have invoked GATT consultation and dispute settlement procedures and raised the question in the context of the Uruguay Round. Pending the implementation of the common régime, France and the United Kingdom have been granted new authorizations under Article 115.
- Under a new market organization in the fisheries sector, imports of canned tuna and sardines are subject to Community quotas until end-1996. These apparently substitute for national restrictions previously maintained by France and Spain, although the new quotas, which contain growth factors, set higher EC-wide import levels than those actually realized in 1991.
- Steel deliveries from the CIS Republics, which previously entered five member States under national restrictions, now face Community quotas. Current proposals are for an extension until end-1995.

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National excise taxes on certain tropical products (coffee, tea, cocoa) are not scheduled for harmonization. Five member States maintain coffee taxes with ad valorem incidences of up to 100 per cent in 1991. Italy quadrupled its rates in January 1991, giving rise to protests within the GATT system.

Where common technical regulations exist, any EC or third country products meeting these requirements may circulate freely within the single market. In the absence of common rules, goods qualify for free circulation throughout the EC whenever they conform to regulations valid in any of the member States. In areas of health and safety, harmonization of technical rules or the specification of essential common requirements has been preferred to mutual recognition. Implementation into national law of new directives laying down essential requirements has, however, proved difficult, and the establishment of supplementary norms has taken longer than scheduled. Technical barriers may thus continue to affect intra-EC trade in certain areas, including machinery, for some time. By contrast, both imported and EC-produced motor vehicles that qualify under comprehensive harmonization provisions may be traded among member States without standard-related impediments as from 1 January 1993.

National procurement entities are, in general, required to apply EC rules to all supplies worth more than ECU 200,000. However, in the "excluded sectors" (water, energy, transport and telecommunications), a new EC Directive sets the thresholds at ECU 400,000 or, in telecommunications, at ECU 600,000. In these sectors the Directive permits the rejection of bids with a foreign content of over 50 per cent from countries that have not agreed equivalent access to EC supplies, and requires Community preference to be given if the price differential is 3 per cent or less.

Harmonization of export-related policies, such as financing and insurance, has not so far gone beyond the stage of mutual information and consultation. Areas such as countertrade also remain the responsibility of individual member States. No up-to-date information on national policies in these areas has, however, been made available for this report.

Type and incidence of trade policy instruments

Abolition of national restrictions and harmonization of trading conditions among member States have increased the relative importance of Community trade policy instruments, in particular the Common Customs Tariff. In some sensitive areas, however, the tariff appears to be less relevant than instruments such as anti-dumping actions, bilateral restraint agreements, and export monitoring or moderation on the part of competitive foreign suppliers. In some other areas, such as shipbuilding and coal, protection in certain member States may rely heavily on production subsidies or exclusive supply contracts between domestic producers and users. In addition, almost all major temperate-zone agricultural commodities, except oilseeds, are virtually isolated from external competition by the Communities' system of variable import levies.

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Due largely to the ongoing Uruguay Round, no significant tariff changes have been implemented in recent years. Almost all EC tariffs on industrial items are bound in GATT, averaging slightly below 6½ per cent. Significant tariff escalation exists in areas such as fish, tobacco, leather, rubber, textiles and metals. Further escalation may result from tariff suspensions on basic inputs such as chemicals and microelectronic components.

Also in view of the unfinished state of the Uruguay Round, the EC has made no substantial changes to its system of GSP preferences. The Commission admits that benefits under the scheme are reduced by considerable administrative costs, uncertainties resulting from its application and, in sensitive product areas, the use of tariff quotas that may be exhausted within a few days. The new "Europe Agreements" with central and eastern European countries are, moreover, liable to erode the advantages granted to other preferred suppliers.

Apart from the "consensus" on motor vehicles with Japan, no new bilateral restraint monitoring or moderation arrangements have apparently been concluded by the EC in the past two years. Many such arrangements, exchanges of letters and understandings affecting imports of iron and steel products have expired, and surveillance of imports of certain consumer electronics and machinery from Japan and Korea has been terminated. However, in the context of association or cooperation agreements, the EC and its Mediterranean partners have continued export moderation and monitoring arrangements on certain sensitive textile and clothing products. These seek to prevent "market disruption" and, thus, avoid restrictive action by the Communities under the safeguard provisions of the agreements.

Steel imports, except from EFTA countries, are subject to retrospective or automatic prior surveillance; and new prior surveillance has recently been introduced on apples. While aimed at gathering up-to-date information on trade flows, such measures may prompt affected exporters to exercise "prudence", with a view to avoiding new import restrictions. Continued unilateral export monitoring by Japan and the Republic of Korea on sensitive items, such as steel semi-manufactures, metal flatware, travel goods, pottery and chinaware, appears intended to ensure undisturbed access to major export markets, including the Communities.

Subsidies to industry are granted mainly at national level, subject to Community control. Although the level of such State aids was lower in the period 1988 to 1990 than between 1986 and 1988, it is unlikely to have declined further, given the large amount of aid channelled into the east German economy (some ECU 24 billion in 1992) since unification.

Temporary measures

Anti-dumping measures, in the form of duties or price undertakings, continue to be the Communities' most frequently used trade remedy instruments. In September 1992, over 160 measures were in force. A sunset clause provides for their expiry five years after their introduction, last

modification and confirmation, unless affected parties invoke a review procedure. Since 1985, over three-quarters of the measures have expired as scheduled.

Chemicals and fertilizers account for about two-fifths of all anti-dumping measures, followed by textiles, base metals and metal semi-manufactures. Such traditional industries may be more vulnerable to alleged unfair price competition - or exert more pressure - than more dynamic industries in earlier phases of product development. Structural rigidities, stemming from industrial concentration in mature segments of the economy, may further increase the likelihood that low priced imports are regarded as causing serious injury. In these circumstances, anti-dumping action may conflict with competition policy objectives. A recent case in which the EC authorities intervened to restore competitive conditions concerns soda-ash, where domestic producers had sought anti-dumping protection to defend cartel rents against competing imports. The companies involved were convicted under EC competition law and the anti-dumping measures repealed in 1990/91.

In sectors regarded as central to the development of new industries in the Community - such as electronic memory components - anti-dumping actions were considered in the "Community interest", being aimed at restoring a "fair" market environment and reducing dependence on foreign supplies. A recent decision by one EC company to develop a new generation of memory chips jointly with a Japanese producer and a U.S.-based firm may, however, prompt discussions about the notion of minimum self-sufficiency in assessing "Community interest" in this field.

Safeguard actions under Article XIX of GATT are rarely used by the Communities. Between January 1991 and December 1992, the EC took three such actions, all on food products; and in February 1993, minimum prices were introduced on imports of certain white fish. Germany continues to invoke Article XIX in connection with its coal policy; dating from 1958, this is the longest-standing safeguard action in GATT.

In the period under review, the EC has applied one safeguard provision under a preferential trade agreement. In the second half of 1992, it imposed selective import quotas on steel deliveries into France, Germany and Italy. These measures, taken under the "Europe Agreement" with the then Czech and Slovak Federal Republic, were introduced after bilateral discussions on voluntary action had failed; they expired on 31 December 1992.

Recent proposals by the Commission aim to change the procedures for EC trade remedy actions, by giving the Commission the right to implement measures unless disapproved by a qualified majority in the Council of Ministers. This would lead to an important change in the institutional decision-making balance, away from the member States towards the Commission. Currently, a qualified majority of the Council has to approve Commission proposals for remedial actions - including anti-dumping and countervailing duties - in order to bring them into force.

While safeguard provisions under the Communities' general import legislation (Council Regulation No. 288/82) are based on Article XIX of the GATT, the new market organizations for fisheries, tobacco and bananas contain less stringent constraints on EC action. In these areas, the EC may take emergency action in the event of imports causing or threatening to cause serious disturbances which "may endanger" the objectives of the Common Agricultural Policy. The Commission is empowered to introduce the "appropriate measures" immediately; the Council would need to achieve a qualified majority against the Commission in order to amend or revoke a measure.

Trade-related aspects of competition policy

The EEC Treaty places a general ban on anti-competitive practices affecting trade between member States. The Commission has applied these provisions to prevent private arrangements from substituting for formal trade barriers and thereby thwarting the integration process. The use of EC competition policy as an instrument to support integration has been facilitated by an extensive definition, developed in EC case law, of practices considered to affect trade between member States and, accordingly, to fall within Community competence.

Arrangements involving EC or foreign Government authorities, such as export restraints vis-à-vis the EC or individual national markets, do not infringe competition law if the companies involved remain within the set limits. Export cartels among EC companies are outlawed if they have repercussions on EC internal markets.

The Commission may grant exemptions to competition law for specified periods, for agreements between companies contributing to objectives such as improving the distribution of goods or promoting research and development. General conditions for cooperative arrangements deemed acceptable have been laid down in block exemptions. One of these, enacted in 1985, covers supply contracts between producers and dealers of motor vehicles ensuring exclusive territories within the same franchise system. However, the Commission has stressed that it will not tolerate practices, such as refusal of maintenance services, aimed at deterring sales across contract territories and among member States.

Most functions of EC competition policy - developing rules and guidelines, policing, prosecuting, and passing decisions - are vested in the Commission. As in the anti-dumping area, no independent institution is involved in the investigation and decision-making process, and there is no need for the Commission as a body, should its final decision diverge from the position taken by its competent service (Directorate General IV), to make such deviations public or to give reasons.

The Commission's rôle in competition policy extends to the area of State aid. Under the EEC Treaty, the Commission is entrusted to keep under constant review all subsidy systems within the Community. It has the exclusive competence to decide on the compatibility of such systems with the common market objectives.

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Within the European Economic Area, the participating EFTA countries are required to accept the "acquis communautaire" of EC rules and case law, in such areas as technical regulations, public procurement, competition policy and State aid. Full implementation of the "acquis" in these areas also prevents EEA members from introducing anti-dumping or countervailing actions on each other's shipments.

Sectoral policy developments

Reflecting the diversity of national production structures and, as a result, the redistributive effects associated with many policies, EC decision-making on sectoral issues tends to be difficult and time consuming. The need to agree, for any significant reforms, on complex packages that cater to the sensitivities of at least a qualified majority of member States, helps explain the longevity of certain costly programmes, such as in agriculture, as well as the problems in responding swiftly to external stimuli, including those arising from the Uruguay Round. However, it also testifies to the political momentum involved in pursuing and implementing the Internal Market programme and, more recently, passing reforms in the Common Agricultural Policy.

Available information suggests that the implementation of the Internal Market programme has improved access, transparency and legal security in many sectors. Fears that the EC would turn more inward-looking do not seem to have been justified, and there is little evidence of any major intensification of protective measures in the industrial sphere. However, not all measures have been fully implemented to date, and many of the new régimes are awaiting their first tests.

In a number of regulated industries, the Community has taken steps to harmonize the regulatory framework among member States, ease entry barriers, and inject competition into hitherto strictly controlled areas. For example, considerable efforts have been made to reduce distortions resulting from the exclusive position of national telecommunications carriers on procurement markets, and to trim the coverage of their supply monopolies. In pharmaceuticals, issues such as approval criteria and procedures and the mutual acceptance of tests have been addressed through comprehensive EC directives. A common framework for product acceptance, applicable as from 1995, should promote market integration in important areas and ease conditions for external trade. However, the diverse price or profit control mechanisms operated by member States and national reimbursement systems remain largely unchanged.

Most coal-producing member States, except Germany, have liberalized their policies in the sector or decided on major adjustments. Large parts of the German market continue to be reserved for domestic production, shielded from both intra-EC and international competition through subsidization and an intricate system of exclusive supply relations. Recent Commission proposals aim to establish a common policy framework for the sector, based on a reference price mechanism that is intended to reflect supply security aspects. The Commission does not, however, regard coal production as an end in itself, irrespective of economic viability,

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and stresses that supply security is also related to the diversification of energy sources.

In the steel sector, movement towards restoring market mechanisms has continued, as shown by the expiry of voluntary restraint arrangements and a tighter rein on subsidies. However, with stronger import competition, a dramatic decline in domestic demand and deteriorating export markets, compounded by countervailing and anti-dumping actions in the United States and Canada, the Communities' resolve to defend these achievements is under challenge. Import surveillance remains in force and some imports from central European countries and Egypt have recently been made subject to anti-dumping duties or price undertakings.

Exchange rate guarantees granted by the German Government in privatizing Deutsche Airbus, together with more general issues of production subsidies for Airbus, have been a trade irritant between the EC and the United States. A solution was found in 1992 by the abolition of the exchange rate guarantees, in the context of the full privatization, ahead of schedule, of Deutsche Airbus; in July 1992, the United States and the EC signed a bilateral agreement specifying disciplines for large civil aircraft programmes.

In May 1992, the EC Council decided on a major overhaul of the Common Agricultural Policy. The changes imply a significant decline, from 1993/94 onwards, in levels of price support and, hence, the degree of policy distortion particularly in the grain sector. Basic principles and mechanisms of the CAP, including the concept of Community preference and the variable levy system, remain intact. While the agreed price cuts may contribute to containing overproduction in the sectors concerned, and thus reduce the Communities' export push on world markets, their significance for import demand is yet to become clear; in 1989/90, EC self-sufficiency in cereals stood at 136 per cent, more than 10 percentage points higher than in the mid-1980s. Other supported areas, in particular milk and sugar, are largely unaffected by the reform package.

To date, there has been little change in the intensity of agricultural protection. PSE levels in the order of 50 per cent for 1990 and 1991 suggest that, on average, about one-half of EC farm income results from policy intervention. Assistance is based mainly on border protection, with variable levies insulating most internal prices from world market developments. Over time, various measures have been designed to contain farm output, such as producer quotas, early retirement schemes and extensification programmes. Community expenditure in the sector nevertheless reached over ECU 4,100 per farm worker in 1991, varying from less than ECU 3,000 in Portugal, Greece and Spain to over ECU 15,000 in Belgium. Additional payments are granted at national and regional levels, for example on environmental grounds, subject to Commission approval. Following adjustments in the Communities' agrimonetary system, Germany has been authorized, since 1984, to compensate its farmers for ensuing income losses; national payments in this context amounted to DM 2.7 billion in both 1991 and 1992.

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With a view to cushioning the impact of currency adjustments on national farm incomes, country- and product-specific "green" exchange rates have been used for more than two decades to convert common ECU prices into national currencies. For certain products and countries, the principle of a single EC market, with uniform producer prices, was thus more fictitious than real. By contrast, the post-1992 agrimonetary régime is essentially based on a uniform exchange rate, corresponding to the ecu central rate of the national currencies. For the next two years, however, a "switchover" mechanism will be retained; in the event of realignments, the green rates will be varied in order to avoid price decreases in the stronger national currencies, leading in turn to additional income gains for farmers in weak-currency countries. For the time being, exchange rate adjustments among member States will thus result in complex accounting operations and could require significant Community expenditures.

Trade Policies and Foreign Trading Partners

Five purely m.f.n. suppliers, including the other major trading entities, account for some 27 per cent of the Communities' external trade. Imports from all other sources may qualify, with wide variations between countries and sectors, for free-trade area treatment or for contractual or unilateral preferences. This results in a complex hierarchy of preferential relations, with varying dispute settlement provisions, safeguard clauses, rules of origin, and differences in product coverage.

The conclusion of the Internal Market process has encouraged the development of overlapping preferential trading systems within Europe: spreading outward from the EC to the European Economic Area agreements with EFTA countries (except Switzerland), the "Europe Agreements" with central and eastern European countries, and parallel free-trade agreements among the latter countries and between them and the EFTA members. These moves liberalize trade in many products but create an area of further departure from the m.f.n. system, both among the signatories and towards third countries.

In the event of conflicts, the Community and its preferential trading partners have usually sought to negotiate solutions, and to avoid invoking formal dispute settlement mechanisms under their agreements or the GATT. For more than a decade, the Communities' recourse to Article XXIII of the General Agreement has been confined to disputes with its m.f.n. suppliers, in particular the United States.

The New Commercial Policy Instrument, whose inception in 1984 appears to have been motivated by Section 301 of the U.S. Trade Act, cannot be used to enforce unilateral interpretation of international law. Where international obligations exist, as under the GATT, the EC is committed by the NCPI to respect the outcome of the relevant procedures, however long these may take. Only four investigations have been opened under the Instrument, three in areas not covered by the GATT. The Communities' resistance to internal pressures to sharpen the NCPI with a view to using it more actively or aggressively, has contributed to maintaining the integrity of multilateral dispute settlement mechanisms.

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Certain provisions of the recent Europe Agreements seem to set a new tone. While the "old" free trade agreements with the EFTA members explicitly refer to, and reaffirm, the obligations arising from other international agreements, no comparable reference exists in the "new" Europe Agreements, except in the areas of dumping and subsidization. Thus, in imposing bilateral restrictions on steel imports from the Czech and Slovak Federal Republic in 1992, the EC used the safeguard provisions under the Agreement in a way that seems to suggest that not only bilateral preferences but also GATT obligations have been suspended.

Trade policies in any administration are defined and implemented within a field of competing economic interests. The current macroeconomic problems and uncertainties in the Communities, compounded by adjustment pressures stemming from the Internal Market programme, the "Europe Agreements" and the need to integrate the east German economy fully with the EC, may strengthen inward looking interests. In these circumstances, more leeway in decision-making, possibly at the expense of contractual obligations, may be seen as an advantage, enabling policymakers to respond swiftly and "pragmatically" to challenges. Without a stable and effective framework of multilateral rules and disciplines, however, such decision making may be vulnerable to short-term pressures and vested interests.

The present stalemate in the Uruguay Round thus contains serious risk. Given its weight in, and impact on, the multilateral trading system, the EC has a major rôle in preventing narrowly-defined regional and sectoral interests from gaining the upper hand, and in bringing about a successful conclusion to the Round. This would consolidate and strengthen the Communities' position in the world trading system and contribute greatly to the stability and development of international trade relations. New multilateral trading rules and agreements, as well as the significant improvements in market access, which will come from a successful Round, will both support European integration and provide a firm basis for its outward-looking evolution.

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TRADE POLICY REVIEW

EUROPEAN COMMUNITIES

Report by the EC - Executive Summary

A

This is the second Trade Policy Review report presented by the EEC Commission on behalf of the European Community. In the two years or so since the first report (April 1991), the main developments in terms of new actions in the field of external relations and trade can be briefly summarized as follows, following chronological order.

First, at the end of 1991 the Community reached agreement in the Maastricht treaty on the terms of its own further development with important new commitments in the monetary field, with major trade implications in the longer term, and intensified cooperation in foreign and security policy. The ratification process is under way in all Member States.

Second, in the course of 1992, a new agreement to establish a European Economic Area and to intensify regional economic integration was signed with EFTA countries; and agreements were also signed with Poland, Hungary and Czechoslovakia with the aim of establishing progressively full freedom of movement of goods and services, of capital and of people. The trade provisions in these agreements, which foresee setting up free trade areas within ten years, have entered into force pending ratification.

Similar agreements have more recently been signed with Romania and Bulgaria, and the necessary amendments as regards the new Czech and Slovak republics are being negotiated. Further, the Community's future trade relationship with the Baltic states, with the Russian Federation and with the other newly independent states of the former Soviet Union, are being actively discussed or negotiated.

Third, at the end of 1992, the transition period towards a full single market in the Community ended and a new era with total free movement of goods and services, and of capital and people, was introduced from 1 January 1993. (Some final decisions e.g. on remaining national restrictions, full implementation of certain Directives and on procedures for border checks on the movements of people are still to be taken).

B

These developments, and the economic context in which they have taken place, are examined in the first part of the report, Section I. Although the EC has developed a growing trade deficit after 1987, it remains one of the most open of all major economies if measured by the percentage of GDP contributed by trade in goods and services. On this basis the EC (with a fairly consistent 25 to 27 per cent of its GDP derived from such trade through the last 15 years) is more open than the US (whose figure was less

MORE

than 15 per cent in the early 1970s, rising to just above 20 per cent in 1980 and still at this level a decade later) or Japan (whose figure was around the EC level in the late 1970s and early 1980s but sharply declining since then and only around the US level of 20 per cent today.

If openness is measured only in relation to imports of goods as a share of GDP (and making due allowance for energy imports which can be a major distorting factor), the EC has a higher % figure than either of its major partners, significantly more than Japan. [On a measure of exports of goods to GDP, the EC would be second to Japan but still higher than the US figure.]

During the 1980s extra-EC imports in total increased by almost 65 per cent in value terms; import growth from certain countries was especially rapid eg. imports from Turkey and China more than quadrupled, from Taiwan they tripled, and from Japan they more than doubled. On the other hand these countries proved also to be dynamic markets for Community exports; these rose sharply (in some cases from a smaller base) to Korea (up more than 5 times), Taiwan (4.5 times), Japan (more than 3.5 times) and Turkey (3 times), compared with an overall growth rate of EC exports of 94 per cent during the 1980s.

Among the top ten exporters to the EC market there are those that have benefitted from regional economic integration (five individual EFTA countries) as well as other major trade partners such as US, Japan, Canada and the PRC (China). (The tenth major supplier in 1990 was the former Soviet Union). A precisely similar pattern exists as regards the major markets for EC exports.

The EC market is often vital for the exports for its partners; no less than 75 per cent of the total exports of the five CEECs, for example, came to the European Community and about half of this trade was already free of duties and of any restrictions in 1991. This is a measure of the contribution that the Community has made, and will continue to make, towards the economic and political reforms being pursued in those countries, in addition of course to its major programme of technical assistance within the G.24 framework.

C

Section II of the report presents a detailed picture of the elements of the Single Market programme which have the greatest impact on trade. In general this confirms a picture of market opening and of expanding opportunities for third countries. The simple fact that a producer will be able to seek access in one go to the whole Community market (thanks to the principle of mutual recognition, single licensing and greater harmonisation) rather than having to seek multiple authorisations is of major benefit to traders whether in the EC or from third countries. With the disappearance of internal borders, goods do indeed already circulate freely.

MORE

This section covers such issues as the elimination of remaining national restrictions and developments in important sectors such as public procurement, standards and certification, pharmaceuticals and public health, trade in services and telecommunications; and demonstrates the very positive impact of these changes on external trade opportunities.

As in 1991, Section II also presents a picture of the trade developments in the Community in important sectors and in terms of the more important types of trade measures. The aim is to present the situation from the Community's point of view, thus providing a point of direct comparison with the analysis and comments in the GATT Secretariat's own report.

Thus sectors such as agriculture (with decisions on reform of the CAP), textiles, automobiles, steel and civil aircraft are covered in detail; and Community activities in the field of customs tariffs, origin rules, safeguard measures and anti-dumping measures are analysed and discussed.

D

Section III places all these developments in the broader context of international trends (lower economic growth, strong trends towards regional integration and towards globalisation of industries) and traces the effects on the Community's flows of imports and exports. For example, preferential trade flows have always been an important feature in the EC's foreign trade, especially with EFTA countries and with developing countries (both under GSP and with Mediterranean and ACP partners). More recently, following their inclusion in the GSP system and later under the Europe agreements, the Central and East European countries have also become new and growing preferential trade partners. Nevertheless, one might note the fact that less than 30 per cent of EC imports actually benefit effectively from access on a preferential basis (due to the wide availability of m.f.n. duty-free entry in the EC tariff and in some cases, due to non-utilisation of GSP).

The structure of EC trade is compared with that of the US and Japan; and trade patterns with developing countries are analysed.

Finally, as in 1991, some major external constraints on the growth of EC exports in major markets are mentioned, in order to demonstrate that the basic approach of reciprocal opening of all markets (which is a major Community aim in the Uruguay Round) is still highly relevant and opportune if a successful and balanced outcome is to be achieved.

END