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EUROPEAN COMMUNITIES

MINUTES OF THE MEETING

Chairman: Mr. A. Szepesi (Hungary)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman, introducing the second review of the European Communities, welcomed the EC delegation and recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989. The Council was to base its work on two reports, one submitted by the Commission of the European Communities (C/RM/G/36) and the other by the GATT Secretariat (C/RM/S/36A and 36B).

2. He invited delegations to focus primarily on policy developments over the past two years and on aspects not fully covered by the first review of the European Communities. Australia, Brazil, Canada, Costa Rica, Hong Kong and Japan had given advance notice in writing of points they wished to raise during the meeting. These had been conveyed to the EC delegation in Geneva. It was understood that these points should in no way limit the scope of the Council discussion.

3. The Chairman thanked the two discussants, Mr. Celso Amorim and Mr. Don Kenyon who would speak on their own capacity. He invited the representative of the European Communities to give his opening statement, to be followed by the discussants.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF THE EUROPEAN COMMUNITIES

4. The representative of the European Communities said that the report prepared by the EC Commission was intended to complement the Secretariat's report, which gave a thorough and comprehensive picture of recent trade policy developments in the Communities. Against this background, his opening remarks were intended to highlight major events and policy trends since the initial review in April 1991, rather than giving a full record.

5. He referred to a series of new treaties and agreements, including

- (i) the Maastricht Treaty which, after ratification, was expected to influence the longer-term orientation of the Communities and lead to full economic and monetary union;
- (ii) the Agreement on a European Economic Area, which would further intensify integration within the EC/EFTA area; and
- (iii) the Europe Agreements which, though similar in substance to classical free trade agreements, covered a much wider policy spectrum, including trade in services and movement of capital and labour.

6. Negotiations were also underway on agreements with the Russian Federation and other CIS Republics, with the longer-term perspective of free trade. Current negotiations with Mediterranean countries were aimed at extending and deepening the existing association agreements.

7. The completion of the Single Market had largely been achieved, as scheduled, by end-1992. Contrary to certain fears expressed during the initial review, it was now generally accepted that the programme had improved access. Internal reforms in such areas as pharmaceuticals, services and telecommunications, to mention only a few, had not only benefitted EC suppliers but opened markets for third country producers as well.

8. The Communities' system of preferential and regional trade arrangements was complementary to greater liberalization in the GATT. The General Agreement explicitly allowed for such schemes, and developments in other regions of the world showed that an increasing number of countries appreciated their positive trade effects. Any concern the world might splinter into trade blocs appeared devoid of empirical evidence. Rather, except in Japan and the Pacific zone, the share of intra-area in total trade had remained largely stable over time. The Secretariat's observation that only 27 per cent of the Communities' imports came from m.f.n. sources was misleading. It neglected the high

share of trade from preferential sources entering under m.f.n. conditions, for example, because the EC accorded duty-free access to all suppliers. The fact that the trade performance of certain preferential suppliers had lagged significantly behind other countries, also argued against premature conclusions.

9. The Communities had not increased the number of anti-dumping measures over time, contrary to other entities, and the number of new initiations had declined significantly. EC procedures were fully in line with the relevant GATT Code provisions. Its actions did not go beyond what was necessary to protect domestic producers from the injurious dumping, over significant periods, of like products. Scrupulous observance of the relevant Code provisions was also reflected by the fact that no more than 0.5 per cent of EC imports were subject to anti-dumping measures.

10. The widespread perception that EC trade remedy actions relied increasingly on voluntary restraint arrangements was totally unfounded. Many such measures, in particular at national level, had expired or been transformed into non-restrictive surveillance. In some cases, there was no firm evidence that such arrangements had ever existed.

III. STATEMENT BY THE FIRST DISCUSSANT

11. The first discussant reminded the meeting of a scene of the classic movie "Casablanca" in which the French Chief of Police asked the adventurous character, incarnated by Humphrey Bogart, why he had come to Casablanca. Bogart answered, not devoid of irony, that he had come 'for the waters'. When the inspector said that Casablanca was in the desert, Bogart simply replied that he was 'misinformed'. The discussant felt that, should Adam Smith or one of his followers attend a TPR meeting, particularly if it concerned a large entity, a similar situation could arise. If Smith came for free trade, he would have to be disabused, without irony this time, that he was misinformed.

12. For a reader unfamiliar with the new revisionist vogue of managed trade, the voluminous reports by the Secretariat and the Community were somewhat of a shock. Quantitative restrictions, massive subsidization, reference prices, variable levies, price undertakings, voluntary restraint arrangements, countervailing charges, high excise taxes, multilaterally or bilaterally agreed restrictions on textiles, and the large array of discriminations implicit in the different preferential agreements: all that added up to an apparently intricate and restrictive régime.

13. A good part of both reports was devoted to the harmonization efforts currently undertaken by the EC. Although this should, in principle, be a positive development, he doubted whether the underlying assumption, in particular in the Communities' report, that harmonization was equivalent to liberalization was necessarily true. In this context, the forthcoming EC banana régime and reciprocity provisions in the services area were worth mentioning. By contrast, according to the Secretariat, the situation of quantitative restrictions had moved 'significantly' in a more liberal direction. Reference was made to a 'handful' of products still subject to restrictions, details of which were under discussion in late 1992. Voluntary restraint arrangements in the steel sector had been terminated. While the reform of the Common Agricultural Policy could possibly be included in the list of positive measures, it was unlikely to have a significant impact on market access.

14. The CAP reform was not comprehensive. It was mainly confined to cereals, meat and dairy products and left important areas such as sugar, fruits and vegetables, untouched. The measures implied a change in the system of support, from price-related assistance to direct payments to producers, with the intention of decoupling support from production. They were based on the assumption that, indirectly, market access would be improved and export subsidies diminished by reducing the levels of production and self-sufficiency. The effects were, however, still unclear. Another aspect of the reform, the setting aside of 15 per cent

of farm land, raised questions concerning enforcement by Community authorities.

15. On the negative side, a tariff quota system had been introduced on imports of bananas from non-ACP countries, and some sort of a voluntary restraint mechanism in the automobile sector had been agreed with Japan. Recent press reports indicated the introduction of restrictions on beef and steel from eastern European countries. On the whole, if there were some encouraging signs, there was also some backsliding and he felt that there was a long way to go before the European Communities could be considered a real free trader.

16. Analysis of the Communities' rôle in the multilateral trading system was complicated by the fact that the EC was still an entity in the making, whose character and identity would take time to consolidate. Even if the responsibility for trade policy per se lay at EC level and harmonization efforts were underway, there were several layers of decision making, including Community, national and sometimes sub-national levels. For example, in 1989, the German Länder alone poured four times more money in R&D projects than that made available through EC-funded programmes, even though the latter tended to enjoy better publicity. He thought, therefore, that more time and more information - including on macroeconomic policies in individual member States - might be necessary to evaluate the effects of national measures on international trade.

17. Since the EC had genuinely global trading interests, one would expect continuous and consistent action to strengthen the multilateral system. The picture was, however, ambiguous. On the one hand, the EC had to be praised for its rejection of unilateral action to resolve trade disputes and for its strong support in the Uruguay Round to a more institutionalized trading system. Even the New Commercial Policy Instrument, which afforded some room for unilateral action, seemed to be clearly subordinated to GATT and had rarely been used. If the ambiguity of GATT provisions on emergency measures and anti-dumping, of which the EEC was a frequent user, left room for some form of unilateralism, this could not be equated with the aggressive pursuit of market opening through threats and sanctions. At times, however, the EC had demonstrated reluctance in accepting the results of dispute settlement procedures.

18. EC policies had a marked tilt towards organizing trade relations through an important and growing network of preferential arrangements. They were not necessarily coherent, some excluded agriculture, some maintained special restrictions on textiles, others contained safeguard clauses which overrode GATT obligations. The EC seemed to reproduce the pattern of its member States' imperial systems of the past, reflecting political motivations as much as economic considerations. This approach

did not befit the rôle of a superpower with global interests. It could exacerbate distortions in the world trading system, pushing non-participants, which sometimes might have had the EC as their main trading partners, into other regional arrangements, thus further contributing to the fragmentation of the world economy.

19. The new preferential arrangements with eastern European countries might prove detrimental to certain traditional suppliers to the EC, for example of textiles. Discrimination between developing countries was another pressing issue. He would go as far as saying that the Communities' GSP system as a whole had become a mixed blessing, at least for countries that had not (i) formerly been a European colony; (ii) recently emerged from communist rule; or (iii) visibly suffered from international drug cartels. The dilemma of preferential treatment was dramatically illustrated by the dispute on the EC import régime for bananas. While the suppliers benefitting from privileged access to the EC market needed international help, it should be recognized that some of the non-privileged developing countries might be just as dependent on banana exports and face similar economic difficulties.

20. As far as declarations of intent were concerned, the EC had displayed great sensitivity to the problems of developing countries. In practice, however, the situation varied according to the subject. During the Uruguay Round negotiations, for example, the EC had been more responsive than others to concerns of developing countries on such issues as Article XVIII:B, trade-related investment measures or cross retaliation. It had therefore been able to exercise a mediating rôle. In regular GATT activities, the EC had often responded flexibly to developing countries' interests, as evidenced in the discussion of regional arrangements under the Enabling Clause, especially in the case of the MERCOSUL notification.

21. At the same time, some of the Communities' trade measures were extremely harmful to developing countries in general and, in particular, to those which suffered some form of discrimination. It was evident how severely traditional exporters of agricultural products were affected by the Communities' import restrictions and distorting export subsidies. These policies also impaired the long-term interests of so-called 'net food importers', many of which had considerable development potential in the sector and could benefit from a liberalized world market.

22. He was impressed by the number of occasions on which Governments in EC member States attempted to support individual sectors. Agriculture was highly protected, completely isolated from world prices and massively subsidised; half of the EC farm revenue was due to policy intervention. In the automobile sector, despite an indication that protective measures would be phased out by the year 2000, the Secretariat's report informed

of recent subsidization, and it was not clear whether this practice would be discontinued. In shipbuilding, subsidies amounted up to 34 per cent of value added in 1990, and some member States maintained import prohibitions on certain vessels. The textiles sector was protected through quotas, and coal mining was supported mainly through subsidies. In electronics, the prime objective was promoting R&D, including the impressive attempt to create a European-only standard for HDTV in order to provide a market reserve for local producers of hardware and software. A recently announced rescue plan for the ailing steel industry, though including capacity reductions, was reportedly based on subsidization. Apparently, two member States, Italy and Spain, were refusing to accept the scaling down of unprofitable State companies in this sector (International Herald Tribune, 5 May 1993).

23. These measures per se would probably not place a large burden on the economy. However, their cumulative effect, compounded by high wage costs and the expensive social security systems in Europe, could prove unsustainable. In this connection, it was worth noting that Europe had apparently failed to narrow the competitiveness gap with the United States and Japan in many high technology industries - it seemed to be losing ground on several fronts - and, at the same time, faced growing competition from Asian and eastern European countries in traditional industries. The European economy could thus be squeezed between two competitive challenges; and by attempting to protect all industries at the same time, the EC authorities would not only damage their partners abroad, but act against the Communities' own economic interests.

24. In addition, the discussant invited the EC representative to comment on specific points:

- (i) A ruling by the European Court of Justice and a Commission Communication concerning parallel imports of proprietary medicinal products. Though these actions focused on the abolition of intra-EC trade barriers, the basic objective - preventing patent owners from using anti-competitive practices to restrict trade - had obvious connections to competition policy.
- (ii) The coincidence of anti-dumping investigations and anti-cartel actions. Apparently, certain EC industries had sought anti-dumping protection with a view to evading the disciplines of a competitive environment.

(iii) The avoidance of compulsory local content requirements, especially in relation to automobile production. The discussant enquired about the Communities' interpretation of the relevant provisions of Article III of the GATT and of the Uruguay Round Draft Final Act.

25. In conclusion, he expressed appreciation for the adventure of building a unified Europe in which trade and national economic interest were put at the service of peace and prosperity. Many lessons were to be learned from this experience. Competition policy and mutual recognition of standards were two examples of how difficult questions could be tackled in a multinational environment. But in order for the 'acquis communautaire' to become a gain for mankind, it was necessary for the EC to replace overprotection of internal activities and selectivity in its external relations by a multilateral approach in which the benefits of dynamic comparative advantage could be reaped by all.

IV. STATEMENT BY THE SECOND DISCUSSANT

26. With a view to focusing the debate, the second discussant introduced four main themes:

- (i) As the world's largest trader, the EC held a central place in the GATT system and its trade policy had a profound effect on all other contracting parties;
- (ii) the liberalization of intra-Community trade in goods and services, which had followed the Single European Act of 1987, was undoubtedly of great potential benefit, both to the EC and the world as a whole;
- (iii) significant sectoral problems persisted in the EC, hampering access to the EC market and reducing the EC's potential contribution to the growth of world trade; and
- (iv) the EC had a very extensive network of preferential trading arrangements which sat oddly with its key rôle in a multilateral trading system based on the principle of non-discrimination.

There were obvious tensions between these themes.

27. The central rôle of the EC in world trade and the GATT was demonstrated by the fact that it accounted for 23 per cent of world GDP, 15 per cent of world merchandise exports and 17 per cent of imports (net of internal trade). With relatively low GATT bound tariffs of between 6 and 15 per cent and fairly free access at least for industrial products, the EC was a very significant market for many countries. It was also a very efficient producer and exporter of a wide range of manufactured goods and of services.

28. In view of all this, he considered it disappointing that the volume of EC trade with the rest of the world had changed relatively little since 1986. It had remained at about 40 per cent of member States' total trade. He also noted that, between 1986 and 1991, the value of EC external trade had increased only by 36 per cent, while world trade had grown by almost 70 per cent. Surprisingly, the EC had not made the contribution that could have been expected in view of its overall liberal policy.

29. The most notable Single Market reforms, which had been introduced progressively since the late 1980s, were:

- (i) The diminution of restrictions on trade into and between the member States which were previously allowed under Article 115 of the Treaty of Rome;
- (ii) a more liberal approach to setting EC wide product standards and testing/certification requirements;
- (iii) internal de-regulation of the banking, insurance and investment services industries;
- (iv) more liberal Government procurement policies, designed to move away from previous 'buy national' practices; and
- (v) an EC-wide programme of R&D to develop high technology industries.

30. While the Communities' rate of growth in the late 1980s demonstrated the benefits of the Single Market, the present decline showed equally clearly that even such a large market was vulnerable to the external challenges which seemed to be multiplying recently. They included the disintegration of the Soviet Union, the current transition processes in countries of central and eastern Europe, the cost of German unification and the Uruguay Round stalemate.

31. He was sure that other contracting parties recognized the difficulties of getting a large number of member States to agree on economic integration in sensitive areas. However, while such action held considerable benefits for the future - especially if underpinned by a successful Uruguay Round outcome - it was still too early to see practical results in terms of accelerated trade growth with the rest of the world. Despite the Single Market process, there remained sectoral problems which seriously restricted trade. High on the list were distortions in agriculture, caused by very high levels of domestic support, the variable levy system, and export restitutions for products covered by the Common Agricultural Policy.

32. He called for the first generation of CAP reform to be succeeded by further measures in areas like sugar and fruit and vegetables, which had remained unaffected or where changes were not as thorough-going as in the cereals, meat or dairy sectors. The welfare losses to consumers, caused by current support levels, also argued for a continuation of the reform process.

33. High levels of internal support and border restrictions were also evident in important industrial and services sectors, including motor vehicles; shipbuilding; civil aircraft; electronic products; pharmaceuticals; textiles and clothing; and coal, especially in

Germany. Steel had been subject to significant restraints in the past and could well be again, and access to the telecommunications market continued to be hampered by monopoly operations in some member States. Government procurement had been subject to reforms under the Single Market programme, however, local content rules still significantly reduced the scope for participation of non-EC suppliers.

34. The widening network of preferential arrangements was an additional factor that helped explain why the Communities' contribution to world trade growth had been less than expected. Not only the constituent parts of the EC itself, which clearly could have benefitted from trade creation, but the whole trading system had suffered in the past from the extension to new member States of restrictive EC policies in sectors such as agriculture, steel, motor vehicles and some services industries.

35. He considered it worrying that sensitive sectors were excluded from the benefits of the Communities' preferential trade agreements, thus tending to institutionalize existing EC trade restrictions. Moreover, the countries involved in such agreements were less likely to exert pressure and to complain about access barriers to the EC. It was instructive that the 81 countries participating in the Community's preferential arrangements (excluding EFTA members and purely GSP beneficiaries) only accounted for about 11 per cent of total imports. The arrangements often contained bilateral safeguard provisions, dispute settlement procedures and even anti-dumping/countervailing mechanisms, which allowed the EC to take action outside of, and not always consistent with, the GATT. In addition, a wide range of grey area measures, including voluntary export restraints and import surveillance, severely limited access in such areas as agriculture, textiles, motor vehicles, steel and various electronic products. The Communities' network of preferential trading arrangements, together with these restraints, amounted to the most complex network of "managed trading arrangements" in the world.

36. Referring to the tensions between the four main themes, he noted that the means for dealing with them were fairly clear. If the EC fulfilled its potential for making a greater contribution to world trade growth, largely by addressing its remaining serious adjustment problems, and played a positive rôle in bringing the Uruguay Round to a successful conclusion, it could significantly reduce the contradictions, inconsistencies and paradoxes in its trade régime - and, by the same token, the scope for future TPR debates.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

37. Council members thanked the EC representative and the discussants for their pointed and inspiring introductions into the debate. The statements, together with the reports prepared by EC Commission and the GATT Secretariat, provided a good overview of EC policy trends and the rationale behind.

38. Members referred to the prominent rôle, and the consequent responsibilities, of the European Communities as the largest entity in world trade. The EC had initiated or contributed to many major policy developments since the initial review, and further important changes were in the offing. Reference was made in this context to the Single Market programme, the reform processes in eastern European countries, the Europe Agreements and the Agreement on a European Economic Area, the Maastricht Treaty and new applications for EC accession.

39. It was widely acknowledged that, overall, the EC had lived up to its international responsibilities in implementing the Single Market. Reforms in core areas of the programme, including standardization and, with some exceptions, the harmonization of national trade régimes, had a positive impact on access conditions for both EC producers and external suppliers. Many participants endorsed the Secretariat's observation that fears that the EC would turn more inward-looking in the Single Market process did not seem to have been justified and that, in the industrial sphere, there was little evidence of any major intensification of protective measures.

40. The representative of Iceland, speaking on behalf of the Nordic countries, looked forward to the entry into force of the European Economic Area and the resulting liberalization of factor movements and trade in services between the EC and participating EFTA members. He also welcomed the Communities' support for the economic reforms in central and eastern Europe as evidenced, in particular, by the conclusion of the Europe Agreements and the lifting of long-standing import restrictions. Regrettably, no progress had been achieved in rationalizing and streamlining the Communities' complex GSP scheme.

41. He noted that the EC was a very frequent user of anti-dumping measures and stressed the need to take a measured approach in this area, in strict compliance with international rules. Welcoming the recent accord reached between the EC and the United States on procurement of electrical equipment, he enquired how it would be handled under the GATT Code.

42. The Communities' commitment, under its New Commercial Policy Instrument, not to act unilaterally in the event of trade frictions, was

commendable. The Nordic countries also appreciated the recent decision to reform the Common Agricultural Policy which, they hoped, could help advance the Uruguay Round. This contrasted to fisheries, where the Communities' negotiating position, in particular its link between market access for fish and access to fishing grounds, had caused problems. According to the Secretariat's report, member States had notified 45 new national aid régimes in the fisheries sector in the first ten months of 1991. He asked the Commission to provide details of these régimes and, in this context, also to address the question of how it intended to solve the problem of excess fleet capacity.

43. While recognizing that the Internal Market programme had a beneficial impact on overall market access, the representative of Canada pointed to remaining undetermined areas caused, for example, by delays in the standardization process. He sought clarification on the scope for individual member States to depart from common plant health and veterinary requirements and expressed concern about the use of animal health provisions for protectionist purposes. While the procurement directive on the so-called excluded sectors was a step towards EC market integration, and had a positive impact on EFTA countries, it meant no tangible progress for m.f.n. suppliers.

44. The recent Europe Agreements provided for only partial market opening, largely excluding agriculture, coal, steel and textiles. He urged the EC to reconsider these limitations on particular promising and competitive industries of its partner countries and noted that the limited coverage of agriculture compounded the difficulties of integrating the sector into the GATT. It was important to ensure that bilateral obligations under the agreements did not prevent m.f.n. tariff reductions. The Canadian representative also sought information on current negotiations concerning free trade agreements with the Gulf States and partnership agreements with the Russian Federation and other CIS Republics.

45. The Communities' recent efforts towards agricultural policy reform were an important, though yet insufficient, step in the right direction. Distortive elements, including export subsidies and variable levies, remained in place. Exclusion of linseed from the arable crop régime, and the production impact via set-aside, could further erode Canada's position on an important export market. He encouraged the EC to ratify the oilseeds agreement with the United States and provide adequate compensation to affected countries. In the fisheries sector, characterized by tariff peaks and escalation, Canada continued to wait for meaningful EC offers in the Uruguay Round. He also hoped that a solution could be found to tariff escalation on non-ferrous minerals and metals, wood and newsprint. Given the Communities' past failure to

rationalize its highly subsidized coal, iron and steel sectors, Canada welcomed the new efforts to restructure the steel industry.

46. The representative of Argentina expressed disappointment at the Communities' lack of leadership in creating a more open international environment for trade and investment. Moves towards fragmenting international trade, through new preferential relations and sector-specific solutions, prevailed. The reduction of the Communities' m.f.n. régime to no more than five countries undermined the health of the GATT system. While regional integration could in principle help improve trading conditions overall, the declining share of Latin American supplies in extra-EC imports was indicative of serious access problems.

47. Recent decisions to reform the Common Agricultural Policy had excluded such basic features as Community preference and export restitutions, and the continuation of the agri-monetary system for two years could trigger new subsidies. The extension of the CAP to potatoes was imminent; and the forthcoming European Economic Area could compound current access problems for third countries. The Argentinian representative also expressed concern about the still simmering oilseeds dispute and the Communities' recent introduction of minimum prices for white fish. The reduction or elimination of many internal border restrictions, referred to in the TPR reports, was of no consolation to suppliers confronted with tightened sanitary and phytosanitary norms, food controls, certification requirements, plant inspections, and import bans as in the case of offal. Individual member States like Denmark were even allowed to impose additional requirements. He felt that these observations confirmed the Secretariat's view that the lack of stable and effective multilateral rules and disciplines could make EC decision-making vulnerable to short-term pressures and vested interests.

48. The representative of New Zealand saw the risk that the current recession could result in more inward-looking policies being pursued by the Communities. This, in turn, could jeopardise important achievements of the Internal Market process and further delay the solution of outstanding issues, including the harmonization of certain veterinary and phytosanitary regulations, the development of common environmental packaging regulations, and the elimination of diverging inspection fees and practices among the member States.

49. New Zealand was increasingly affected by the discriminatory effects of the Communities' expanding system of preferential agreements with selected countries; fisheries agreements were a case in point. Access problems were exacerbated by substantial tariff escalation and, recently, by the minimum prices imposed on certain white fish imports. He hoped that the new EC market organization in the fisheries sector did not result in new barriers and discriminations, and complained that little

had been achieved in the Uruguay 'Round' in this sector. Referring to the Communities' licensing system for apples, he questioned the purpose of a mere monitoring exercise, given the readiness of affected suppliers to provide factual information, and expressed concern that quantitative restrictions might follow.

50. The Communities' reform efforts in agriculture were commendable, though they had started from a very high production base and did not fully separate support from production. Areas like sheepmeat and dairy had remained largely unaffected.

51. The representative of Hong Kong said that recent trade policy decisions by the EC had eased previous fears of a fortress Europe. The gradual disappearance of national restrictions and the harmonization of trading rules and technical regulations had produced positive effects. He was interested, however, to learn what future rôle Article 115 of the EEC Treaty could play within the Single Market. Pointing to the low usage, so far, of Article XIX and the explanation given in the EC report, notably the lack of support among contracting parties for selective emergency actions, he hoped that Communities would continue to exercise restraint in applying these provisions as well as so-called voluntary restraints.

52. The EC was not only a prominent user, but also a frequent target of anti-dumping measures. This might help explain such features as the 'lesser duty' rule, sunset provisions and the Community interest clause. Hong Kong continued, nevertheless, to be concerned about the inherent bias towards findings of dumping and injury that ensued, for example, from the arbitrary choice of third countries in constructing normal values, the setting of artificial profit levels or the practice of zeroing down negative dumping margins. Both the current proliferation of anti-dumping measures and their potentially negative impact on competition called for a fundamental reconsideration of this instrument, and he wondered whether the EC was prepared to co-operate.

53. Noting that certain countries currently on the threshold of the Communities had a more liberal régime for textiles and clothing, the Hong Kong representative emphasized the need for EC enlargement to lead to freer trade with third countries and to contribute to the eventual integration of the sector in the GATT system. New accessions should also result in the limitation or termination of anti-dumping measures.

54. The representative of Japan expressed support for the process of European integration and its contribution to political and economic stability, as long as it was compatible with an open multilateral trading system. He was worried, however, about recent tendencies (i) to take actions irrespective of their impact on the multilateral system or, as in

the phyto-sanitary area, without prior consultations with affected countries; (ii) to pursue bilateral approaches in the event of trade frictions, in particular with the United States; and (iii) to build into new preferential arrangements such questionable features as duty-free import quotas for EC products.

55. Since the initial review, the EC had continued to use rules of origin and anti-dumping rules in an arbitrary and protectionist manner. Some problems, such as the treatment of indirect costs and delays in anti-dumping investigations had become even more serious. He invited the EC to reflect, in view of its own competitiveness, on the cost effects ensuing from its anti-dumping actions.

56. Certain member States had applied quantitative restrictions on imports from Japan for more than four decades, in clear violation of the GATT. Some measures had survived the completion of the Internal Market, and it was imperative for the credibility of the GATT system that they be terminated immediately. In addition, the Japanese representative expected the EC (i) to provide full information on the recent procurement accord with the United States and to extend all concessions erga omnes; (ii) to continue its commendable reform efforts in the agricultural sector and, in particular, to address the problem of export subsidies; (iii) to rein in current subsidies for shipbuilding which Japan considered extremely trade distorting. Finally, he expressed concern about repeated postponements of this Trade Policy Review of the EC and delays in submitting the Communities' report. Japan hoped that the agreed procedures would be strictly observed in future.

57. The representative of Malaysia, speaking on behalf of the ASEAN countries, said that it was only through actions that fears of a fortress Europe could be allayed, and he wondered what justifications could be given for recent EC actions on bananas and canned fish. Though future accessions could encourage tariff reduction in the industrial sphere, the ASEAN countries were concerned that the entrants might be obliged to adjust to restrictive EC régimes in agriculture and textiles.

58. While the EC granted very generous trade preferences to certain developing countries, for example the Lomé countries on bananas and sugar, it accorded only low priority to its GSP recipients. Given their distortive effect on long-term resource allocation, extreme preferences could contravene the recipients' best own interests. The ASEAN countries had shown that export success did not depend on such questionable benefits. He also noted that contractual obligations had hampered the Communities' ability to negotiate m.f.n. tariff reductions, especially on tropical products, in the Uruguay Round.

59. In addition, the Malaysian representative expressed concern about significant tariff escalation on leather, textiles, and rubber products; the Communities' recourse to voluntary restraint arrangements and the possibility that current surveillance measures might act as a precursor for such arrangements; frequent use of anti-dumping measures, a recent shift in country focus against Asian suppliers, and negative interactions between anti-dumping and competition policy; protectionist use of rules of origin; complicated and costly health certification requirements on fish imports; the imposition of EC quotas on canned tuna, with no GATT basis and in contravention of the standstill and rollback commitments of the Uruguay Round, despite high existing levels of tariff protection; and the possibility that the CAP reform, though courageous, might prove insufficient to reduce production incentives. He noted that although regional quotas on textiles and clothing within the EC had been abolished - which should facilitate market access - the possibility existed of reintroducing ceilings in the event of high import concentration. He hoped that this provision would not be used to single out individual suppliers.

60. The representative of Poland underlined the historic significance of the recent Association Agreements between the EC and individual central and eastern European countries. Their positive contribution to economic development and, thus, to trade expansion would also benefit other contracting parties. Pointing to the Communities' rôle as Poland's top commercial partner, he emphasized his country's objective of obtaining full membership as soon as possible. In all areas relevant to the future integration process, Polish legislation was being adjusted to the corresponding EC régimes.

61. He urged the EC to accelerate liberalization under the Europe Agreements in such areas as textiles, chemicals and metals which, while described as sensitive on its side, were particularly promising for Poland's export-led growth. It was also important that the EC withstood domestic pressures to use health measures for trade restrictive purposes, as in a recent case of alleged foot and mouth disease. The Polish representative also alluded to new anti-dumping initiatives aimed at achieving self-restraints by Polish exporters. Welcoming recent measures to reform the CAP, he hoped that, in order not to fuel domestic demands in Poland for similar protective devices, the EC could achieve further progress. Poland viewed the evolution of the Communities as a fundamental factor in European and global economic stability.

62. The representative of Mexico noted that, like the first discussant, he was worried about the concentric systems of preferential relations surrounding the EC. The need to strengthen interregional ties in an era of economic globalization as well as the need to counter current macroeconomic uncertainties, partly engendered by fiscal and monetary

imbalances within the EC, made it imperative to complete the Uruguay Round soon.

63. He shared concerns about the disruptive effects of the Communities' export restitutions for agricultural products and noted that, as a matter of principle, price-based support should be replaced by less distortive instruments. His delegation was also worried about new EC legislation preparing the ground for surveillance measures on farm products, including mangoes. In the anti-dumping area, recent rulings by the European Court of Justice had contributed to a positive trend in EC law and its application. He considered the substitution, under the EEA Agreement, of competition policy for anti-dumping provisions as an encouraging feature which warranted further consideration and, possibly, emulation.

64. In addition, the Mexican representative sought clarification on a variety of trade policy topics, including the interaction between liberalization and harmonization in the Internal Market context; any measures taken to ensure transparency of anti-dumping procedures; the practical operation of the sunset provision in anti-dumping cases; and circumstances in which the Communities' public interest provision might prevent it from introducing anti-dumping or countervailing measures.

65. The representative of Turkey considered it too early to pass final judgement on the external effects of the Internal Market programme. The Secretariat's report had outlined a possible picture, noting that the programme had improved access, transparency and legal security in many sectors, with the qualification that not all measures had yet been fully implemented and others were awaiting their first test. In agriculture, positive expectations were less justified in view of the Uruguay Round stalemate. Anti-dumping was a particular problem area; he was concerned about an increasing tendency of trade harassment that could spread to developing countries as well.

66. The new preferential agreements recently concluded by the EC would have significant repercussions on global trade. He could, however, not share the Secretariat's view that the Europe Agreements were wider in coverage than previous association agreements, including that with Turkey of 1964. For example, in the area of competition policy, a Protocol to this Agreement, signed in 1970, already required the Council of Association to adopt within six years the conditions and rules for the application of EEC competition principles. Moreover, the recent Europe Agreements were not the Communities' first agreements to contain an accession clause. The Preamble to the Agreement with Turkey already held that the Communities' support for the economic wellbeing of the Turkish people would ultimately facilitate Turkey's accession to the EC. He further noted that, by 1995, the customs union between the EC and Turkey

should be completed. Turkey's GATT tariff bindings would then be identical to those of the EC.

67. The representative of Switzerland said that the second Trade Policy Review of the EC took place at a crucial moment in European history, as evidenced by creation of the Single Market, the ratification process of the Maastricht Treaty, the Agreement on a European Economic Area and new contractual links with central and eastern European countries. Overall, EC trade policies had evolved with due respect to GATT rules and commensurate with the Communities' specific rôle and responsibilities in the multilateral trading system. He hoped that, following the letter and spirit of the Treaty of Rome, the Single Market would prove trade-creating, ensure market access for third countries and meet the challenge of 'Communitarization'.

68. While the recent increase in international trade disputes, particularly involving large participants, was a matter of concern, it was at least encouraging that many disputes were brought to the appropriate GATT fora. Like other delegations, the Swiss representative saw, however, the risk of bilateral settlements being concluded to the detriment of third countries.

69. The representative of the Republic of Korea appreciated that, to a large extent, the EC had not only managed to advance internal integration and promote growth but, at the same time, respect its GATT responsibilities. The completion of the Internal Market was in general proceeding on course. However, while Korea supported a stable and economically healthy Europe, it was concerned about an increasing tendency towards European regionalism that could lead to significant trade distortions. The advantages resulting from m.f.n. or GSP treatment by the EC were significantly impaired by its multi-layered system of trade preferences.

70. The Korean representative identified various EC policies and practices considered to impede trade in industrial products. In the anti-dumping area, these included the frequency of actions, duration of investigations, influence of political bodies on the proceedings, and limited scope for judicial review. Proposed legislation that would strengthen the Commission's influence at the expense of the EC Council, could result in even more commercial defence measures, including anti-dumping initiatives. Pointing to various references, in the Secretariat's report, to remaining national import quotas, he sought clarification on the products concerned and the timetable for elimination. Significant tariff peaks remained in such sectors as textiles, metals, consumer electronics and leather products; their restrictive effects were often compounded by voluntary restraint arrangements, anti-dumping actions, bilateral quotas or barriers

resulting from the multiplicity of technical regulations among member States.

71. Korea encouraged the Communities to continue developing harmonized standards - which should, however, be incorporated into national legislation - and to extend the application of the mutual recognition principle to third countries.

72. The representative of the United States welcomed the completion of the Single Market programme, which on the whole had proved beneficial for both the EC and its trading partners, and praised the political courage involved. She also recognized that the Communities had a largely open trade régime.

73. Against this background, she identified the following negative trends: (i) increased use of sectoral reciprocity provisions to extract concessions from trading partners in such areas as public procurement, financial services and copyright protection; (ii) the introduction of new EC-wide restrictions as substitutes for previous national measures, for example on motor vehicles and foreign-origin television programmes; (iii) the conclusion of new preferential trade agreements that failed to cover substantial portions of the agricultural, steel, textiles and footwear sectors, and which had been used by the EC to commit the other signatories to maintaining specified preferential margins between bilateral and third country tariffs; (iv) the distortive use of subsidies across a wide range of sectors, from agriculture to civil aircraft, steel, shipbuilding and coal; and (v) the use of unilateral sanctions, or threat thereof, as a trade policy instrument. She enumerated several examples, including the revocation of GSP preferences in order to enforce a change in Korean patent law and the Communities' pressure on Japan to monitor its car exports in order to avert the imposition of quotas.

74. The months ahead in the Uruguay Round would show whether the EC was prepared to use its size and influence with a view to promoting trade liberalization or extracting commercial advantages from individual partners.

75. The representative of India referred to the difficult macroeconomic environment in which trade policies were currently defined and implemented. As the world's largest trading entity, it was imperative that the EC should live up to its responsibility for the multilateral system and withstand protectionist pressures.

76. India considered the Single European Act as a mixed blessing. While, under the Act, it was no longer possible to apply internal border measures or standard-related barriers against external imports, member

States had maintained quotas on such products as textiles, footwear and toys. The number of restrictions under Article 115 had come down, but the legal provisions were still in force. Recognizing that almost all EC tariffs on industrial products were bound in GATT, averaging some 6 per cent, he noted that products of importance to developing countries, including textiles, were not only subject to significant tariff escalation, but also to MFA quotas and various anti-dumping actions. India hoped that the accession of new members with more liberal textile régimes would not result in the extension of EC restrictions. A further matter of concern were the Communities' non-tariff barriers, ranging from voluntary restraint arrangements, surveillance actions and quotas to packaging, labelling and marking requirements and to minimum price obligations. The overhaul of the Common Agricultural Policy had not affected the intensity of protection.

77. The Communities' overlapping systems of preferential relations, recently extended through the Europe Agreements, created further departures from the m.f.n. system. This was particularly worrying since the Europe Agreements, unlike the EC/EFTA Free Trade Agreements, contained no strong reference to the signatories' other international obligations. However, regional arrangements needed to be fully consistent with GATT rules. While India supported assistance to eastern European countries and the CIS Republics, it had reservations concerning the use of GSP as a basis for such aid.

78. The representative of Morocco emphasized the Communities' crucial influence on world trade developments and its responsibility for strengthening the trading system. Recent trends confirmed prior expectations that Single Market process would prove a dynamic element and open new business opportunities. Indeed, certain restrictions had been removed and new Community rules contributed to improving transparency and market access, thus extending the benefits of the Single Market should also be extended to third countries. While, as already highlighted by other delegations, EC trade policies were not free of shortcomings and inconsistencies, he remained confident that the Community was aware of these problems and would take remedial action. He emphasized the need to bring the Uruguay Round to a rapid conclusion in order to promote international economic integration and support the economic reforms currently underway in countries like Morocco.

79. The representative of Chile called attention to changes in market openness over the past two years. Unfortunately, neither TPR report had traced export/import ratios in 1991 and 1992, and there was thus no quantitative basis to assess recent trends. Statistics referred to by the EC suggested that the Communities' trade to GDP ratio was lower in 1990 than in 1989 or 1984, and that its lead over the United States and Japan had declined. This was not surprising, since the Communities'

policy focus was on internal reforms and on new preferential arrangements.

80. It appeared questionable whether recent EC policies would have a positive impact on the multilateral system and further the Communities' own objectives, laid down in the Treaty of Rome, of contributing to the harmonious development of world trade. New restrictions had been introduced, for example, on imports of fisheries products, apples, orange juice and mangoes where the EC had resorted to restrictive surveillance and licensing practices or reference price systems. She asked for the GATT legal basis of these cases. In addition, she invited the EC representative to state the GATT provisions under which the Communities justified its variable levy system on farm products and to give his assessment of the external effects of the allegedly far-reaching CAP reforms. Noting that the EC itself was applying measures similar to those listed by the Commission as hindering access to developing countries, the Chilean representative called on the Communities to show more consistency in pursuing the principle of free trade.

81. The representative of Austria endorsed the Communities' view on the effects and objectives of regional integration. In addition to the points made by Iceland, which he largely supported, he expressed concern about the very limited possibilities for regional cumulation of processing stages, for origin purposes, among the Communities' current European free trade partners. In the area of subsidization, the Secretariat's report seemed to demonstrate a lack of discipline in the EC.

82. He expressed concern that the stalemate in the Uruguay Round could fuel international trade frictions. Such frictions, in turn, could place unsustainable burdens on those countries which, by their geographical location, were the main export destinations for the central and eastern European economies. He thus welcomed recent proposals by the EC Commission to liberalize the Communities' régime towards these countries.

83. Austria acknowledged that bilateral contacts between trading partners were helpful, or even necessary, to relaunch the Uruguay Round. It was, however, important to introduce any results of such contacts into the negotiating process in Geneva.

84. While recognizing that the EC economy was largely open, the representative of Brazil warned that this needed to be defended against vested interests. Many sectors in the Communities, including textiles, steel and footwear, were covered by specific measures, schemes and directives. New restrictions had recently been introduced on bananas, apples and orange juice, and initiatives towards 'eco-labelling' had been pursued without taking into account conditions in third countries. These

developments, as well as the Communities' difficulties in accepting the Panel ruling on oilseeds, did not promote high expectations for the Uruguay Round.

85. The recent reforms of the Common Agricultural Policy, though modest, were a step in the right direction. However, given the continuation of highly distortive mechanisms, the EC could expect no negotiating credit from its partners in the Uruguay Round.

86. The representative of Romania praised the recent Europe Agreement, which he considered a precondition for his country's difficult transformation into a market economy and democratic society. The Agreement, as well as the Maastricht Treaty, the Agreement on a European Economic Area and the completion of the Single Market, were proof of the Communities' firm attachment to the cause of wider European integration. At the same time, the EC had reaffirmed its strong belief in, and support for, the multilateral system. Its current trade policies reflected the diversity of interests among member States as well as their dependence on external trade. Not all measures fitted into a liberal, stable and predictable framework; anti-dumping actions and national quantitative restrictions were cases in point. An assertive rôle by the EC in concluding the Uruguay Round would both help advance European integration and promote the world economy.

87. The elimination of remaining trade controls on shipments from central and eastern European countries as well as the establishment of a specified timeframe for their accession to the EC would contribute positively to the transition process.

88. The representative of Colombia noted that the process of widening and deepening the Communities could be advanced either to the benefit or at the expense of external liberalization. The EC had abolished a variety of trade barriers maintained by member States on Asian and central and eastern European supplies. By contrast, while the number of internal trade restrictions under Article 115 had come down significantly overall, France and the United Kingdom continued to bar Latin American bananas under these provisions. France had also recently been authorized to impose restrictions on banana imports from Côte d'Ivoire and Cameroon. It was also disappointing that the harmonization process did not cover excise taxes on such products as coffee, cocoa and tea where some member States, including Italy, continued to assess rates with ad valorem equivalents of 100 per cent and above. This clearly had an adverse effect on EC consumption and, by the same token, on the economies of the producer countries.

89. The envisaged reform of the CAP, with its new emphasis on direct assistance, was encouraging. However, reform was confined mainly to

cereals and would neither improve market access nor lead to the elimination of export restitutions. New restrictions affected imports of fishery products as well as fruit and vegetables, including bananas and pineapples. Various recent surveillance actions, deposit requirements and minimum price requirements indicated that the EC was moving towards managed trade, contrary to its GATT commitments. He recognized that the Communities' anti-dumping system, while far from being perfect, contained such positive features as a lesser duty rule and a sunset provision. Contrasting to its anti-dumping policy, the EC had not often used its countervailing legislation. In the Subsidies Committee, it had, however, prevented adoption of panel reports for years.

90. Indicating the Communities' wide and expanding system of preferential relations, the Colombian representative emphasized that the balance of rights and obligations vis-à-vis non-participants must be maintained and that regionalism must not lead to trade diversion, but prove complementary to the multilateral system.

91. The representative of Pakistan, while acknowledging the generally positive influence of EC policies on world trade, referred to a variety of cases, including bananas, oilseeds and textiles, where sector-specific régimes operated in particular against the interests of developing countries. Given a tendency of EC internal decision-making to prefer the lowest common denominator, he was concerned about the external ramifications of new accessions. EC policies on standardization, for example, had often resulted in the most protectionist national régime being implemented at EC level.

92. Subsidization under EC schemes such as Retex for regions with textile industries, regional policy programmes, structural funds and new cohesion funds could have a considerable sectoral impact, with questionable effects on the pace of structural change. Pakistan was also worried about a lack of transparency in policy implementation, for example due to frequent changes in tariff classification and adjustments of variable levies; restrictive import licensing procedures; voluntary restraint arrangements between textile industries; the Communities' increased recourse to consultations and restrictions under the MFA; and a tendency to link trade measures to unilaterally determined criteria in diverse areas, including competition policy, human rights and intellectual property rights.

93. The representative of the Czech Republic commended the Communities for its efforts in creating a genuine Single Market which contributed to further internal and external trade liberalization. He welcomed the Communities' commitment to ensuring that regional integration remained compatible with the multilateral system and to working towards a successful conclusion of the Uruguay Round. The Europe Agreement with

the Czech Republic was evidence of the Communities' political and economic support for the new democracies in central and eastern Europe. Certain negative features of EC trade policies had, however, persisted, including the use of safeguard and anti-dumping measures and elements of the CAP. Improving access to the EC market for the traditionally competitive segments of Czech industry thus remained a prevailing economic objective, and he called for the liberalization measures recently proposed by the EC Commission to be implemented as soon as possible.

94. Referring to recent trade policy trends within Europe, the representative of Australia noted a movement away from GATT-based measures towards competition policy instruments, which appeared to play an increasingly important rôle in regulating trade and economic relations. While the implications were not yet clear, he saw the risk of traditional GATT instruments becoming largely irrelevant. New and deeper forms of regional cooperation could emerge, based on such measures as safeguards, rules of origin, State trading, anti-dumping and countervailing actions, tariff and non-tariff arrangements in agriculture, and trade-related investment regulations. He also saw a potential link between the Communities' competition-based approach to the Single Market and the development of industrial and investment policies.

95. Given the economic weight of individual member States and the existence of diverging national policies, the Australian representative considered that specific information relating to member States must be presented in annexes to the TPR reports. He welcomed recent moves by the EC to discipline domestic support for coal and to increase transparency of coal policies; the proposed measures appeared, however, still insufficient. Finally, he urged the EC to ensure that the Europe Agreements had no adverse effects on third countries, for example through increased farm support, subsidized exports or replacement of m.f.n. imports by preferential shipments.

96. The representative of Hungary said that, attracted by the dynamic evolution of the Communities' internal and external trade relations, trade liberalization and participation in European integration had become a major goal for many countries. The Europe Agreements not only guaranteed vital access to the EC market, but helped maintain the stability and security of the associated countries. He referred in this context to the objective of full EC membership that Hungary and others had set for themselves. It was completely misleading to suggest that the Europe Agreements, contrary to the Communities' previous free trade agreements, could override the signatories' GATT rights and obligations.

97. Reflecting the situation in the Uruguay Round, EC trade policies had not changed spectacularly since the initial review. However,

progress had been made in removing quantitative restrictions and reforming the CAP, though its external aspects would apparently remain unchanged. Complementary steps were therefore necessary to improve market access and scale down export restitutions in the framework of the Uruguay Round. The Communities' new contractual relationships with central and eastern European countries had not prevented it recently, under domestic pressure, from imposing import bans on meat and dairy products for alleged veterinary reasons. He also expressed concern about a recent proliferation of disputes between the large trading entities and the potential risks for third countries that could result from bilateral deals in this context.

98. The representative of Tunisia gave an overall positive assessment of his country's trade relations with the EC.

99. The representative of Senegal referred to the Lomé Convention, which he considered in perfect harmony with GATT principles, as a good example of cooperation between industrial and developing countries. The share of ACP countries in EC imports had nevertheless declined in recent years, contrary to the performance of other developing countries. The EC had acted so far in accordance with its legal and historical obligations vis-à-vis the ACP countries and, at the same time, made important contributions to the Uruguay Round.

100. The representative of Costa Rica pointed to the low share of purely m.f.n. suppliers in EC imports and the variety and complexity of the Communities' preferential relations. The effectiveness of GSP treatment was severely reduced through limits in product coverage and the erosion of preferential treatment resulting for example from the Europe Agreements.

101. Costa Rican exports were severely affected by EC restrictions on fruit and vegetables, including bananas and fish. Several EC member States had confirmed that the new banana régime was GATT inconsistent. He was interested to learn, nevertheless, what methodology the EC had used for establishing the relevant quotas volumes and the duty rates on over-quota supplies, and whether the forthcoming licensing system would be applied EC-wide or member State-specific.

VI. RESPONSES BY THE REPRESENTATIVE OF THE EUROPEAN COMMUNITIES AND FURTHER COMMENTS BY COUNCIL MEMBERS

102. The Council invited the representative of the European Communities, in giving its response, to focus on five major themes. It was understood that remaining open questions would be answered later in writing.

(i) Internal Developments in the Communities, particularly the implementation of the Single Market programme

103. The representative of the European Communities said that the debate so far had shown that important aspects of EC policies were very well known. He felt, however, that interpretation problems might have caused confusion. For example, like many other countries, the EC had passed enabling legislation in important policy areas that allowed for the introduction of measures, if need be. The mere existence of such legislation should, however, not be identified with its actual application.

104. The Communities' commitment to free trade was beyond doubt, whatever the imperfections of day-to-day policies. He reiterated that the import penetration of the EC market was high, by all standards, and that imports had continued to rise significantly. Over the 1980s, external imports had grown by 150 per cent, some 10 percentage point more than internal trade. Developing countries had even increased their shipments of manufactures by some 200 per cent.

105. The EC representative emphasized that the distinction, in the Single Market context, between policy harmonization and liberalization was artificial. Harmonization measures had been taken in parallel with the opening of the EC market to external and internal operators. For example, since the completion of the Internal Market, any product found to conform to EC technical requirements had access to all member States, after a single certification procedure.

106. Harmonization had mostly been achieved through the reduction or, eventually, abolition of trade barriers. In the automobile sector, the 'Communitarization' of national measures was aimed at progressively achieving full market liberalization. National restrictions on imports from Japan and equivalent measures had been eliminated, and the operation of an export monitoring system was limited to a clearly defined transition period. The system was confined to the monitoring of trade flows and would not affect to the production of Japanese-owned companies inside the EC.

107. Even for bananas, he considered the new régime as a step in the right direction. The common market organization, due to enter into force

on 1 July 1993, was based on the principle of tariffication of pre-existing national régimes as laid down in the Draft Final Act of the Uruguay Round. The system foresaw the establishment of an EC-wide tariff quota, bound in GATT. It allowed for import increases in the event of increasing domestic demand.

108. The legal provisions of Article 115 of the EC Treaty remained in force. The text of this Article envisaged that member States may, in specific circumstances, seek authorization to erect national barriers against imported goods; however, as stated in the Secretariat's report, the Single European Act provided no scope, as from 1 January 1993, for any internal trade measures on external imports. The number of Article 115 restrictions had fallen from 119 in 1990 to 8 in 1992. Any future recourse would run counter to the rationale of the Single Market.

109. Referring to the concept of sectoral reciprocity, for example in telecommunications, financial services and public procurement, he stressed that the Communities considered this concept admissible only within a negotiating process, such as in the Uruguay Round. It would not be appropriate to work on this basis outside multilateral negotiations.

110. The first discussant noted that a certain confusion existed with regard to the trade data given by the EC delegation and that contained in the two reports. He also missed an in-depth analysis in the reports of recent changes in the Communities' fiscal and monetary environment. This could have included, as an example, the question of whether fiscal and monetary circumstances in the wake of German unification was comparable to the United States' experience in the 1980s.

111. Large trading partners had the responsibility to set examples and act as trendsetters in the multilateral system. In this connection, he wondered whether the recent surveillance action on apples was conceived by the EC as part of the harmonization process, and whether the use of reciprocity as a negotiating tool in the services sector meant that the EC intended to depart from the m.f.n. principle.

112. The second discussant questioned the Communities' presentation of its new régimes in the motor vehicles and banana sectors as liberalization moves. They would cover previously more open member States and, under the EC tariffication formula for bananas, imports could well fall below historical levels. Recognizing that the Internal Market programme was a very important step, he noted that a lot remained to be done. Subsidization and monopoly practices in such sectors as coal, shipbuilding, civil aircraft and telecommunications were at odds with the common market objective.

113. The representative of Chile said that the growth in imports referred to by the EC delegation would have been much less impressive, had agricultural trade been included. He would prefer focusing on developments since the initial review and, in this connection, on changes in total trade.

114. The representative of Colombia rejected the view that liberalization and harmonization went necessarily hand in hand. In the banana sector, the EC had in effect adopted the position of restrictive member States. Referring to the recent introduction of Article 115 measures valid until end-June 1993, he wondered when the EC would put an end to such actions.

115. The representative of the European Communities confirmed that the current macroeconomic climate was highly unfavourable and that the outlook was dismal. Yet the recession was worldwide. The demand-stimulating effects of German unification had delayed its onset longer in the Communities than, for example, in the United States or Japan. While there was no evidence that EC had yielded to protectionist pressures, he accepted that a final judgement could be passed only in about two years.

116. The EC was not seeking bilateral concessions in the services negotiations. While it was unrealistic to expect that all participants assumed the same level of obligations, he considered it necessary to ensure a balanced outcome among the major participants.

117. The EC representative strongly rejected the view that the EC/Japan consensus on motor vehicles would result in any restrictions being imposed on previously open national markets; there was nothing that went beyond overall market forecasts. Conceding that the future banana régime was more complex, he stressed that the relevant quota level had been established, in line with normal GATT practices, as a three-year average and that no party would be worse off. There was, however, room for negotiations. The continuation of Article 115 restrictions on bananas until mid-1993 merely reflected the temporary prolongation of the national régimes.

118. He drew particular attention to Charts A and B in the report by the Community which showed trade (imports plus exports) in goods and services as a percentage of GDP for the EC, the USA and Japan. Chart B gave the same analysis based on imports of goods only, less energy products. In both cases the EC trend was both at a higher level (about 25 to 27 per cent of GDP) and more stable over the last 15 years than the trends for the United States or Japan, which could be interpreted as meaning that the Community displayed a higher import propensity than

either of its major trade partners. On this evidence, there was no basis to suggest it had not contributed its proper share to world trade.

(ii) The Communities' external trade relations

119. The representative of the European Communities emphasized that the Europe Agreements clearly set out a timetable for moving towards free trade or implementing liberalization measures in sensitive areas such as agriculture, textiles, coal or steel. Details were given in the Communities' report. It was not correct to state that these areas had been excluded. For all industrial products, customs duties and trade restrictions were to be eliminated within specified periods. For agriculture, significant market opening was foreseen, including tariff cuts and abolition of quotas on all items subject to GSP concessions. Further progress would have to await the completion of the Uruguay Round and the process of tariffication.

120. As to the acceleration of the liberalization programme, he noted that the Commission had prepared a proposal for consideration by the European Council in Copenhagen in June. It was for the Council to decide.

121. Contrary to certain indications in the Secretariat's report, the Community had not at all changed its position regarding the GATT conformity of its regional arrangements and, in particular, of the relevant dispute settlement and safeguard provisions. He could not see any substantial differences between the Europe Agreements and earlier treaties. The EC had consistently maintained that disputes and interpretation problems arising primarily out of bilateral obligations were best settled in a bilateral context, and he could not conceive of an alternative. He also failed to see how this approach could have an impact on other contracting parties. No signatory had lost its essential GATT rights in disputes touching on its basic GATT obligations.

122. In safeguard situations resulting from increased trade flows at reduced or zero duty rates, the EC had always considered it logical to approach first the preferential trading partner concerned. In the past, large surges in EC imports were often due to deliveries by one preferential partner without much involvement of third countries. In such cases, it would be inadequate to introduce actions erga omnes.

123. Preferential access was not the panacea for trade problems, and the effects of discrimination were often more hypothetical than real. This was shown, for example, by the export performance of the dynamic Asian economies which had improved their share in the EC market over the past five years, while preferential ACP and Mediterranean suppliers had lost ground.

124. The EC representative circulated two tables showing trends in trade by certain regional groupings. He noted that, over the period 1980 to 1991, both imports from and exports to the EC zone had largely been stable (Tables M.I and M.II) and a very similar pattern emerged for imports and exports within the U.S. zone. Only the trade flows within the Japan zone had changed their pattern. There was thus no empirical evidence to buttress the hypothesis that trade within blocs was growing in intensity to the exclusion of trade with third countries. On the contrary, the data confirmed the strong importance for each zone of its external trade, amounting to some 65 to 70 per cent of total trade.

125. He felt that the reference in the Secretariat's report to the figure of 27 per cent of the Community's external trade as coming from purely m.f.n. suppliers, while the rest might qualify for preferences, was misleading. In reality, almost 70 per cent of extra-EC imports entered on an entirely non-discriminatory basis, taking account of the fact that 42 per cent of such imports were subject to m.f.n. tariffs; a further 17 per cent of imports coming from countries receiving preferences would have entered duty-free in any case under zero m.f.n. duties; and at least 8 per cent more was estimated not to have benefitted in practice from preferential rates in force although eligible to do so. Any assessment of the risks resulting from regional arrangements should be made against this background.

126. Referring to the **criteria for choosing preferential partners**, he noted that the Communities' original motivation was to continue previous practices between member States and their former dependent territories. This had led to the Yaoundé and, subsequently, the Lomé Conventions and also inspired, together with geographical proximity and geopolitical considerations, the conclusion of the Mediterranean Agreements. Such situations were explicitly covered by Articles II and XXIV of the General Agreement. A stronger political factor had recently entered the equation; the Europe Agreements were designed to stabilize the situation in central and eastern Europe and to support economic reforms.

Table M.I
Origin and destination of non-fuel trade, 1980 and 1991
Per cent

		EC zone ^a		U.S. zone ^b		Japan zone ^c		Other	
		Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Origin:									
EC ^d	1980	29.7	35.5	27.6	20.9	16.1	16.8	18.8	27.8
	1991	31.0	35.6	28.0	22.8	24.0	19.9	16.9	21.8
U.S.	1980	26.9	34.5	30.4	31.5	33.6	18.7	9.3	17.3
	1991	23.5	29.3	28.6	34.2	39.1	25.1	8.7	11.3
Japan	1980	15.5	17.8	43.9	32.6	19.6	21.8	21.1	27.8
	1991	22.5	22.8	36.6	35.3	22.6	29.2	18.3	12.8

- a EFTA, eastern and central Europe, Maghreb, Cyprus, Israel, Malta and Turkey.
b Canada, Mexico and the other Latin American countries.
c Hong Kong, Korea, Taiwan and the ASEAN countries.
d Excluding intra-EC trade.

Source: COMTRADE

Table M.II
Origin and destination of trade in manufactures, 1980 and 1991
Per cent

		EC zone ^a		U.S. zone ^b		Japan zone ^c		Other	
		Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Origin:									
EC ^d	1980	35.9	33.9	30.6	21.4	22.1	16.1	11.5	28.6
	1991	32.0	36.0	26.1	24.0	29.5	19.8	12.4	20.3
U.S.	1980	30.1	30.4	23.5	37.5	41.8	15.2	4.7	17.0
	1991	23.7	30.5	24.5	36.9	44.2	22.3	7.6	10.4
Japan	1980	32.5	17.9	41.5	33.2	18.3	21.2	7.9	27.8
	1991	31.0	23.0	32.1	35.6	25.2	28.5	11.7	12.8

- a EFTA, eastern and central Europe, Maghreb, Cyprus, Israel, Malta and Turkey.
b Canada, Mexico and the other Latin American countries.
c Hong Kong, Korea, Taiwan and the ASEAN countries.
d Excluding intra-EC trade.

Source: COMTRADE

127. The first discussant said that this review was not the proper forum to examine the GATT-compatibility of the Communities' preferential trading arrangements. He questioned whether the geopolitical factors referred to by the EC representative could, from an economic point of view, be considered an adequate yardstick. Managed trade relations, in

particular if embedded in a highly complex, multi-layered framework, ran counter to basic GATT principles and it was of no consolation that preferential arrangements had recently spread like a disease. The fact that Latin America's trade with the EC had declined significantly over time not least reflected access problems for farm products. Given its extensive network of preferential relations, he found it somewhat surprising that EC had never contemplated concluding arrangements with Latin American countries.

128. The second discussant reiterated that the Communities' external trade had not grown as fast as world trade over the recent past, which might not least be attributable to the focus of its trading relations on less dynamic regions in the world. These relations were being used to manage trade in sensitive sectors such as agriculture, textiles, coal, steel and electronic products. The Internal Market process could, however, reduce protectionist pressures, if and in so far as it contributed to solving the underlying sectoral problems.

129. The representatives of New Zealand and Chile sought further clarification on discrepancies between the data used by the Secretariat, the EC and the discussants, and wondered what conclusions could be drawn from the analysis of past trends for the future of the trading system.

130. The representative of the European Communities stressed that the EC had not become more inward-looking over time, as shown by the fact that its external and internal trade had developed largely in parallel, and that it continued to play its proper rôle in the multilateral system. Figures supplied by the Community indicated that extra-EC trade had grown at a rate similar to world trade in the period 1986-1991; if intra-EC trade was included, total Community trade had grown more rapidly than world trade in that period.

131. Countries interested in preferential trading relations should carefully consider whether they could handle the ensuing adjustments. While political factors argued for a rapid conclusion of free trade arrangements with the CIS Republics, he expected considerable frictions during the implementation process.

132. The management of preferential trade relations should not be confused with managed trade. Meetings of the Joint Committees under free trade or association agreements were not designed to serve such purposes.

(iii) Use of major trade policy instruments

133. The representative of the European Communities emphasized that, contrary to some perceptions, the Communities' recourse to **voluntary trade restraint arrangements** had declined over time. Many of the measures

recorded in the initial report had been terminated since or transformed into non-restrictive surveillance. This was not only due to the Single Market process, which had led to the abolition of measures previously applied at the national level, but also to the recognition that markets had matured and adjusted, and that such actions were less needed. Of the various measures still recorded in the Secretariat's report (Table IV.2 on voluntary restraints and similar actions) a large number fell into the two categories mentioned and thus had no restrictive effect, while others had been taken by exporting countries on their own initiative, without involvement of the EC Commission or member State authorities.

134. Most agricultural products covered by a common market organization were subject to import surveillance in order to monitor trade flows. Licences were issued automatically against a small security which was released on importation within a certain timeframe. In the fruit and vegetables sector, import licences were not always applied to all products though the legal possibility existed.

135. Council Regulation No. 638/93 had included some products, for example pineapples, avocados and mangoes, into the market organization for fruit and vegetables, thus allowing for the introduction of licences should the need for monitoring arise. The system was in conformity with the GATT Agreement on Import Licensing Procedures. At the same time, the Regulation foresaw liberalization for some other products, including tomatoes, lettuces, beans, artichokes, grapes, melons and apricots that had previously been subject to national quantitative restrictions during certain periods.

136. It was not justified to draw a link between the licensing system introduced for apples, in February 1993, and the countervailing charges applied later on the basis of a reference price system. The licensing system was designed to monitor import volumes while the reference prices were intended to protect the EC market from lower priced imports. There had been instances in the past where licensing requirements had been maintained without the parallel application of reference prices and vice versa.

137. Noting that less than 0.5 per cent of the EC imports were subject to anti-dumping measures, the EC representative said that many delegations had attached disproportionate importance to such measures. Moreover, the Secretariat's report, which qualified anti-dumping as the most frequently used trade remedy instrument, had not indicated any increase in the number of Community investigations or actions over time. The average of 19 new definitive measures per year, over the last decade, was not unduly high for a trading group of the size of the EC, bearing in mind its extremely low levels of tariff and non-tariff protection on industrial products. The Community used a very narrow interpretation of

the imports considered as "like products" and, thus, as potentially injurious to a domestic industry seeking anti-dumping protection. Hence, even if the number of actions were higher, the trade coverage would remain virtually insignificant.

138. The excessive duration of certain anti-dumping investigations resulted from the scrupulous adherence by the Commission to Community legislation which, in turn, was strictly in line with the Anti-Dumping Code. In recent complex cases, it also reflected the extreme degree of litigation developed by foreign exporters and EC producers and the need to respect the rights of all interested parties.

139. The Communities' approach compared very favourably with other signatories to the Code, including in particular its lesser-duty practice, the existence of a sunset clause, acceptance of a large number of price undertakings, and the use of a Community interest provision.

140. Referring to **subsidies** in sectors such as steel, shipbuilding or coal mining, he noted that EC policies were aimed at ensuring certain disciplines, including capacity reductions, structural improvements and modernization. In normal circumstances, subsidies to industry were granted at national rather than at EC level, under the supervision of the Commission. EC spending under regional funds was neither product- nor sector-related.

141. The first discussant recognized the termination of voluntary restraint arrangements in certain areas. However, some of the measures ascribed to exporters in fact reflected the weight and negotiating leverage of the EC and the exporters' intention to avoid defensive trade actions. Surveillance measures were very often followed by trade restrictions.

142. The second discussant also appreciated that the number of the Communities' restraint arrangements had tended to decline. He questioned whether surveillance measures were as benign as described by the EC representative or, rather, triggered a spiral of protective measures, from monitoring to countervailing charges under reference price mechanisms and to import quotas.

143. The representative of Hong Kong said that there were positive elements in the Communities' anti-dumping legislation. The EC, unlike many other countries, had not intensified its activities over time. But he did not accept that the adverse effects of anti-dumping actions should be measured only against the number of definitive duties imposed. The deterring impact on trade started once an investigation was initiated.

144. The representative of Argentina reiterated concern about the restrictive use of sanitary and phytosanitary rules and the adverse trade effects of ensuing from EC internal processing and marketing arrangements and import surveillance. Pointing to the continuation of the Communities' agri-monetary system for an additional two years, he invited the EC representative to comment on the rationale behind.

145. The representative of Chile stressed that his authorities had no legal means of moderating or restricting exports of products deemed sensitive by importing countries. He considered the reference price mechanism introduced by the EC on apples, which had prohibitive effects, a case of managed trade.

146. The representative of Colombia wondered why, if low import prices of apples had caused market disruptions, the EC had not resorted to anti-dumping actions as provided for in the General Agreement.

147. The representative of the European Communities said that available trade information confirmed that the reference price mechanism on apples had no restrictive effects. Large quantities entered the EC market and all suppliers, except Chile, had managed to comply with the reference price. He could not exclude that the EC might be compelled, beyond a certain point, to impose quantitative limits. Given the procedural requirements and, thus, the timeframe needed for anti-dumping measures, these were not an effective remedy in cases involving perishable products.

148. Other questions and comments would be replied to in writing.

(iv) Sectoral issues

149. The representative of the European Communities stated that the decision, taken in May 1992 by the EC Council of Ministers, to implement far-reaching changes in the Common Agricultural Policy would affect most market organizations. Although current rules would be changed significantly, the reform did not touch on the principles of single prices, Community preference, responsibility and financial solidarity on which the CAP was founded in 1962. The external trade mechanisms had been retained in principle.

150. The Council had endorsed the three main guidelines laid down by the Commission:

- (i) Substantial price reductions to make EC farm products more competitive on internal and external markets;

- (ii) full and on-going compensation of farmers through compensatory payments or premiums not related to the quantities produced; and
- (iii) implementation of measures to limit the use of production factors, e.g. set-aside obligations and ceilings on herd size, alongside the retention of more drastic rules, such as quotas.

151. In addition, the Council had decided to strengthen measures to protect the environment and the countryside, encourage early retirement, and promote alternative farm activities, including forestry and leisure activities. The measures would be gradually put into practice between 1993/94 and 1995/96. He expected the Uruguay Round to lead to complementary solutions and result in comparable obligations.

152. Referring to the textile sector, the EC representative pointed to the spectacular progress achieved by some developing countries over the past decade. For example, while China was the Communities' eleventh most important supplier in 1980, in value terms, it ranked top in 1991; Turkey had advanced from twelfth to second position and Morocco, nineteenth in 1980, ranked tenth in 1991. Total Community imports of textiles had doubled from 1985 to 1991 and supplies from MFA participants had even increased by more than 2.5 times.

153. The Communities' trend towards a more open textile régime was undeniable. In the MFA agreements concluded since 1986, one-quarter of the previous quantitative limits had been abolished and more flexibility provided. The Communities' tariffs on textiles and clothing were the lowest worldwide, and tariff peaks appeared high only because the EC tariff average was so low. He expected substantive benefits to result from the Uruguay Round for all countries concerned.

154. The outcome of future negotiations on accession, including its implications on the EC textile régime, could not be prejudged. Much depended on the balance of concession to be agreed in due course, and on factors such as the timetable for new entrants and the further liberalization of world trade ensuing from the Uruguay Round.

155. The first discussant noted that tariff peaks and tariff escalation were not confined to textiles. For example, while tomatoes entered under a 3 per cent tariff, tomato paste bore a tariff of 18 per cent. He also reiterated his interest in the Communities' interpretation of local content formula and their possible application to motor vehicles, and in the use of competition policy instruments to overcome patent-related barriers to parallel imports among the member States, whether of external supplies or domestic production.

156. The second discussant stressed the need for further reforms in the CAP and the Communities' textiles régime in view of the Uruguay Round.

157. The representative of Mexico, referring to the CAP reforms, enquired whether the substitution of direct transfers for production-related payments was a general principle or a product-specific feature and if the transfers were conditional on a farmer's retention of the previous production pattern.

158. The representative of the European Communities replied that the problem of tariff escalation was not unique to the EC, but characteristic of almost all tariff schedules. It could be addressed through multilateral negotiations.

159. Compulsory local content provisions, enforced through Governments, would be contrary to Article III of the General Agreement. He noted, however, that local authorities might tend to act flexibly, for example in specifying compensatory obligations for their meeting the infrastructural needs of large investors.

160. In agriculture, it was difficult to predict at this stage where the reforms, including the trends towards world market prices and replacement of production-related through direct payments, would finally lead. In order to avoid fraud, direct payments were made contingent on the setting aside of land previously used for specified crops. Enforcement activities at the EC level had been stepped up significantly.

161. Questions concerning the fisheries sector and parallel imports of pharmaceuticals would be answered in writing.

(v) The European Communities and the multilateral trading system

162. The representative of the European Communities reiterated the Communities' contribution to the expansion of world trade and the strengthening of the GATT system. This included, as recognized by the first discussant, an active rôle in the Uruguay Round and resistance to unilateral measures. He conceded that, under current GATT procedures, the EC had experienced difficulties in accepting Panel findings with which on several occasions it had profoundly disagreed. Its views had been fully explained in the Council. He noted, however, that despite the non-adoption of such reports - which was a course open to all parties in terms of present procedures - satisfactory solutions had normally been found in a pragmatic way for any de facto problem and aggrieved parties had been compensated for adverse trade effects. He was also confident that the establishment of an appeal mechanism, which he expected to result from the Uruguay Round, would help overcome current problems.

163. The two discussants, referring to continued access problems in certain sectors, recalled that the economic weight of the Communities implied a particular responsibility for the multilateral system and the completion of the Round. The second discussant stressed that it was imperative for the EC to pursue market-led adjustment strategies, including in so-called sensitive areas, rather than continuing to rely on managed trade.

164. The representative of Japan said that many specificities of the Communities' trade régime - including CAP mechanisms, the network of preferential relations and active use of subsidies and border measures - reflected its believe in strong Government influence and economic interventionism. While the EC had locked itself into a system of trade arrangements that seemed to ensure stability and predictability, it had foregone the advantages of an open, competition-based environment.

165. The representative of the European Communities stated that an increasingly important debate both within the EC and among the OECD countries revolved around the question of whether and to what extent current employment problems and the lack of economic momentum were rooted in high wage cost, structural immobility and expensive social security systems. While he considered this a very relevant issue, he doubted whether it was fair to judge actual policy decisions from a merely theoretical angle. As indicated in the introduction to the Communities' report, it was much easier to use the beautiful language of economic commentaries, than to act accordingly.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

166. In concluding this second Trade Policy Review of the European Communities, I should like to highlight, on my own responsibility, the salient features that have emerged from the discussion. As usual, these remarks are not intended to substitute for the Council's collective appreciation of the Communities' trade policies and practices. The full discussion, including the introduction and replies given by the representative of the European Communities, will be reflected in the minutes of the meeting. It is also understood that written answers to questions posed by Council members will be supplied by the EC Commission.

167. As the largest trading entity, the important influence of the European Communities on the multilateral trading system is acknowledged. Indeed, this makes it imperative for the Communities' trading partners to continue monitoring the direction in which EC policies are moving.

168. It was noted that significant trade policy changes had occurred in the European Communities over the past two years. These resulted from the Single Market programme, the changing economic and political landscape in Europe, and the need to modify outdated national or Community régimes. Important policy parameters have been redefined in areas including quantitative restrictions, standardization, and Government procurement, and affecting sectors such as agriculture (including tropical products), fisheries, textiles, motor vehicles, telecommunications and pharmaceuticals. Some decisions in the Single Market context are, however, still outstanding and others await full implementation.

The Council identified five major themes for its discussion:

- (i) Internal developments in the Communities, particularly the implementation of the Single Market programme

169. It was widely accepted that the implementation of the Single Market programme has enhanced market flexibility and improved business opportunities for internal and external suppliers alike. Many long-standing trade barriers among member States have been removed and internal border controls have disappeared. Though concerns were expressed that the legal provisions of Article 115 of the EEC Treaty remained on the statute books, the EC representative confirmed that the Single European Act provided no scope for any internal trade measures against imports from external sources. Previous regional quotas on textiles and clothing have ceased to exist. In addition, with the completion of the Communities' agenda concerning standards, testing and type approval, any products meeting the relevant EC regulations or, in

the absence of common requirements, those of any member State may flow freely throughout the Communities.

170. Some participants stated, however that the harmonization of national measures through Community-wide instruments in respect of motor vehicles, canned fish and bananas had created new restrictions in member States which were previously open. The "Communitarization" of previous national measures in these areas appeared at odds with the generally liberal and deregulatory thrust of the Single Market programme.

171. Questions were asked regarding new reciprocity provisions, in particular relating to public utilities. Concerns were also expressed about possible discriminatory aspects of the agreement recently reached between the EC and the United States on public procurement for heavy electrical equipment.

172. It was noted that national excise taxes were largely unaffected by the harmonization process. Some participants called attention to the prohibitive levels of excise in certain member States on coffee.

173. The EC representative said that the distinction between liberalization and harmonization was artificial. In the EC harmonization process, the accent was on liberalization; the aim was to achieve a uniform régime by reducing and finally dismantling previously existing barriers. Thus, Community harmonization policy had gone in parallel with the opening of the whole EC market to economic operators from the Communities and third countries.

174. In the automobile sector, national restrictions had been eliminated and no previously open market was subject to restraints; an export monitoring system would apply for a clearly defined transition period. The common market organization for bananas was based on the principle of tariffication of pre-existing régimes and foresaw the establishment of a tariff rate quota, bound in the GATT.

175. Sectoral reciprocity was, for the Communities, admissible only within a multilateral negotiation process, such as the Uruguay Round negotiations on services and government procurement. It would not be appropriate to work on the basis of sectoral reciprocity outside such a process.

(ii) The Communities' external trade relations

176. Several participants viewed the Communities' trade relations as a series of concentric circles, radiating from the twelve member States through diminishing levels of preferential treatment, with complex

interactions among different preferential groupings. It was recognized that regional economic integration, if coupled with trade liberalization, contributed positively to the multilateral trading system. GATT provisions would, however, require free trade agreements to be comprehensive and to discourage the creation of trade barriers.

177. Several delegations expressed concern that the Communities' agreements varied considerably in sectoral coverage, particularly as regards agriculture and other "sensitive" areas. The GATT consistency of special safeguard and dispute settlement provisions contained in certain individual agreements was questioned. It was emphasized that the enlargement of the Communities should not result in the extension of trade restrictions, for example in textiles and clothing, to new member States which had previously accorded more liberal treatment.

178. A number of participants raised questions regarding the intricate nature and the implementation of the Communities' GSP scheme.

179. Some participants suggested that, instead of anti-dumping measures, the Communities should make wider use of competition policy instruments, as envisaged in the Agreement on the European Economic Area.

180. The EC representative said that the Europe Agreements set out a clear timetable for moving towards total liberalization of customs duties and restrictions on industrial trade between the partners and the EC in all sectors. For agriculture, significant market opening was foreseen, based on major reductions in duties and the abolition of quotas on all items subject to GSP concessions; further moves would await the Uruguay Round and the process of tariffication. Proposals for acceleration of the timetables for liberalization were being made by the Commission, for consideration at the June European Council in Copenhagen.

181. The EC had consistently supported the idea that disputes between preferential partners, which arose primarily out of their bilateral obligations or out of differences in interpretation of bilateral agreements, were best settled under the mechanisms of those agreements. Similarly, safeguard questions in bilateral relationships should first be addressed between the partners directly concerned. However, neither party would lose its GATT rights as a result.

182. Dynamic economies in Asia had improved their share of the EC market over the past five years, whereas preferential suppliers such as the ACP or Mediterranean countries had lost ground. The share of major developed partners such as EFTA countries had been relatively stable over the period.

183. The Communities' choice in regional partners was originally based on previous relations between Community members and their former dependent territories; these situations were explicitly recognised in GATT Articles I.2 and XXIV. More recently, stronger political factors had entered the equation with the Europe Agreements, which were designed to support economic reforms in central and eastern European countries.

184. He also noted that trade outside the European zone, excluding oil, accounted for some 65 per cent of the EC's total trade. In practice, nearly 70 per cent of EC imports entered either duty free or under m.f.n. duties.

(iii) Use of major trade policy instruments

185. Council members recognized that EC tariffs on manufactures were generally bound at low levels and that the market for industrial products was, by and large, open. Tariff peaks and escalation were, however, evident in such areas as non-ferrous metals, textiles and clothing, and electronics as well as in processed foodstuffs, including fish.

186. Questions were raised concerning the scope, and provisions for elimination, of remaining national restrictions applied under Regulation No. 288/82. It was emphasised that packaging and labelling requirements or health and sanitary provisions should not be used as substitutes for such restrictions. Attention was called to a recent Community action on meat imports from central and eastern European countries.

187. Several participants saw a worrying tendency towards using import surveillance and licensing procedures (for example, on apples) and modifications in rules of origin for trade restrictive purposes.

188. Members noted that the number of anti-dumping initiations had fallen and recognized that a sunset clause had proved effective in phasing out old measures. Nevertheless, concern was expressed about lack of transparency in the Communities' mechanisms, lengthy investigations and methodological problems which appeared biased in favour of findings of dumping.

189. The EC representative replied that anti-dumping measures covered less than 0.5 per cent of EC total imports. The average number of cases resulting in definitive measures over the last decade was only 19 per year; and the Community's very strict interpretation of "like product" meant that the impact of any measure was limited to precise items. The duration of investigations was a result of scrupulous adherence to rules of procedures, and the need to respect fully the rights of all interested parties.

190. The use of voluntary restraint arrangements had fallen markedly, with the Single Market process and structural adjustment.

191. The EC's automatic import licensing system for agricultural products coming under common market organizations aimed to monitor the volume of imports. It was not justifiable to draw a link between the licensing system introduced for apples in February 1993 and the countervailing charges applied later on the basis of the reference price system, which were a safeguard against damaging low-priced imports.

(iv) Sectoral issues

192. Recent reforms in the Common Agricultural Policy were considered as encouraging, although it was noted that the fundamental structure of the CAP remained unchanged and that variable levies and export restitutions continued to apply. Participants said that steps taken in the cereals and beef sectors should be extended to other highly protected areas such as dairy products. Moreover, offsetting agri-monetary changes might reduce the effects of the reforms.

193. Disappointment was voiced at recent developments in the EC fisheries sector, in particular the introduction of minimum prices on white fish and, more generally, the restrictive application of standards and health regulations. Some members said that the Communities' insistence, in the Uruguay Round, on linking access to markets for fishery products with improved access to fishing grounds had prevented any substantive progress in the negotiations.

194. Reference was also made to the fact that important areas of EC industry - steel, shipbuilding and, in certain member States, coal - continued to enjoy high levels of subsidization. It was noted that persistent support for declining industries acted as a brake on structural change, impeded the emergence of innovative industries within the EC and denied market opportunities for more competitive third country suppliers.

195. The EC representative replied that the new decisions on far-reaching changes to the Common Agricultural Policy would be gradually put into effect in the marketing years 1993/94, 1994/95 and 1995/96. He confirmed that the reform did not touch the basic principles of single prices, Community preference, responsibility and financial solidarity. The external trade mechanism remained, in principle, unchanged; its future evolution would be influenced by the outcome of the Uruguay Round negotiations.

196. Community policy concerning subsidies in sectors such as steel, shipbuilding or coal mining was to introduce greater discipline on

assistance granted by member States. Regional funds were not product-related or sectoral in nature.

197. Referring to the textiles sector, he said that spectacular progress had been made by some developing countries in the last ten years or so. In agreements concluded under the MFA since 1986, 25 per cent of previous quantitative restrictions had been abolished and wider flexibility was provided, while EC tariffs for textiles and clothing were among the lowest worldwide. The conclusion of the Uruguay Round negotiation would be most beneficial to all countries involved. The effect of EC enlargement on access to the textile markets of new members could not be prejudged.

(v) The European Communities and the multilateral trading system

198. Council members recognized that, given its size and focal position in a changing trade environment, the EC shared a heavy responsibility for ensuring the smooth functioning of the multilateral system. The liberalization and harmonization measures over the past few years were evidence of the Communities' support for the system. Many members also appreciated its commitment to the Uruguay Round process.

199. It was noted that the EC had used its New Commercial Policy Instrument only sparingly; under the Instrument, it was committed to respect international rules and dispute settlement procedures. Members noted, however, that the Communities continued to prefer solutions outside Article XIX safeguard procedures; this preference accentuated the tendency towards management of trade. The Communities had also experienced difficulties in implementing GATT Panel recommendations.

200. The EC representative replied that management of trade relations - as in free-trade agreements - should not be confused with management of trade flows. The Communities' overriding aim in external trade policy was to strengthen the multilateral trading system. A successful conclusion to the Uruguay Round, including the introduction of an appeals procedure, would help overcome problems relating to the implementation of Panel recommendations.

201. My overall appreciation as Chairman is that, first, the EC deserves to be complimented for the positive achievements of the Single Market process. This is creating a unified market, based on the principle that goods produced within the Communities and imported products should circulate freely. We look forward to the completion of this process. Concerns, however, remain that the unification of markets has, in some important cases, led to external trading conditions which, overall, seem more restrictive than those previously in force.

202. It is evident that, within the network of European trading arrangements, the European Economic Area and the agreements with central and eastern European countries are contributing to the development of trade. However, in the GATT context, contracting parties should be assured that regional integration does not create obstacles for third parties.

203. The European Communities, as the world's largest trading entity, has a strong responsibility for ensuring that the multilateral system remains healthy. In this connection, it is imperative that relations among major trading partners, and between them and smaller trading partners, are conducted on a harmonious basis, consistent with multilateral rules and disciplines. In this context, successful conclusion of the Uruguay Round and the injection of a new impetus into multilateral trading relations appears crucial; and the Communities' rôle in bringing about such a successful conclusion is vital.