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GENERAL AGREEMENT ON
TARIFFS AND TRADE

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ADOPTION OF THE EUROPEAN UNIT OF ACCOUNT FOR THE COMMON CUSTOMS TARIFF

Information Note from the European Communities for the Attention of the CONTRACTING PARTIES

Introduction

1. The Community, a developing economic union, has not yet reached the stage of a monetary union. That being so, it does not yet have the common currency that would enable it, and the other contracting parties, to express the specific elements of its common customs tariff in terms of a single monetary unit. That is why, like any customs union, it has defined these specific elements in terms of units of account in order to facilitate maintenance of the unity of its tariff when changes occur in the relationships between the various currencies.

Description of the problem

2. Until August 1971, exchange relationships between the various EEC currencies corresponded, more or less, to gold parities; the unit of account was based on gold and was defined as corresponding to a weight of 0.88867088 grs. of fine gold, equivalent to the gold weight of the United States dollar in the Bretton Woods system. Monetary events in recent years put an end to the Bretton Woods system and led to the introduction of central rates, then to generalized floating. These

changes in the international monetary system over the past six years have had the following two principal effects:

(i) the equivalents in national currencies (of the member States) of the unit of account, calculated on the basis of par values communicated to the IMF, have tended to diverge as exchange rates effectively recorded in the market have increasingly shifted away from par values;

(ii) as a result, the incidence of the specific customs duties in the CCT has become less and less uniform ever since gold was abandoned as the basis of the international monetary system.

3. Since the conversion rates in national currencies of specific customs duties or the value delimitation criteria for certain CCT headings have not been periodically adjusted to take account of the evolution of exchange rates for each currency in relation to the others, these specific duties and other delimitation criteria of the CCT are applied in a heterogeneous manner in the various member States, and as a result some diversion of trade in certain products has occurred. Now, under Article XXIV:8(a)(ii) the customs duties applied by the parties to a customs union must be substantially the same.

4. An adjustment of the unit of account was necessary, and the legal basis for this change derives from the entry into force on 1 April 1978 of the second amendment to the IMF Articles of Agreement. This amendment affects both the conversion rates and the definition of the current unit of account in terms of the weight of fine gold.

Solution

5. So that the incidence of duties may be effectively the same in all the member States and to restore the unity of the common customs tariff, the Community intends to effect this adjustment by adapting the conversion rate of the

UA (unit of account) applicable on 1 January 1978 to that of the EUA (European unit of account). As a result, the specific duties expressed in terms of certain national currencies (e.g. DM) will be lowered, while those expressed in terms of other national currencies (e.g. Italian Lira) will be raised (see below). It is proposed that for certain products the adjustment be made in two successive stages, on 1 January 1979 and 1 January 1980, the differences being cut by half in the first stage. This two-stage operation affects the following products:

- chapter 22 (except wines)
- heading 24.01 (tobacco)
- chapter 69 (ceramic products)
- heading 85.25 A (ceramic insulators)
- heading 91.01 (watches)

6. However, for reasons inherent in the management of the agricultural policy instruments, in respect of certain agricultural products, the unit of account applicable for customs purposes is still - on a provisional basis - the so-called "green unit of account". In other words, these are the representative rates fixed in the framework of the common agricultural policy which are used for converting into national currency the UA figures indicated in the tariff. The products concerned are cheese (in respect of the minimum values to be observed) and wines.

7. In a context of generalized floating where it is no longer possible to say which currency is floating in relation to which other, in the absence of any external reference criterion, it has been necessary in order to define this unit of account to resort to the exchange rates of the currencies with which this unit of account is in relation. This unit, no longer based on par values but on exchange rates actually recorded, must therefore represent a weighted average of the component elements. It has indeed been found necessary to weight each of the component currencies according

to criteria originally deriving from economic concepts (production and trade capacity of the countries whose currencies are used). The solution is thus a unit of account of the "basket" type, whose value is equal to the sum of a fixed amount of each of the currencies that it comprises. The value is calculated each day on the basis of the exchange rates of the component currencies, and the basket unit of account thus established spreads among all the currencies the adjustment burden caused by variations in the value of one single currency.[1]

8. The weighting coefficients for determining these amounts in national currencies have been established as follows:

DM	27.3%	Lit	14.0%	Lux F	0.3%
£ stg.	17.5%	HFI	9.0%	DKr	3.0%
F	19.5%	FB	7.9%	£Ir	1.5%

The initial value of this EUA thus defined was fixed on 28 June 1974 at US$1.20635, for it was on that day that the SDR basket, the value of which was equal to US$1.20635, was established. In this way, a link was assured between the value of the EUA and not only the value of the SDR, but also the UA included in the EEC schedules of bindings, defined by a weight of 0.88867 grs. of fine gold and an "official" value of US$1.20635. Indeed, after that date, with the SDR based on a different basket, the SDR-EUA equality disappeared. Consequently, the value of the "model basket" is equal to the sum of the following amounts in the currencies of member States:

DM	0.828	Lit	109	Lux F	0.140
£ stg.	0.0885	HFI	0.286	DKr	0.217
F	1.15	FB	3.66	£Ir	0.00759

9. The alignment with the EUA of specific duties and other specific elements of the common customs tariff expressed in terms of national currencies does not fall within the provisions of either Article XXVIII of GATT of Article II:6, and is moreover consistent with the provisions of Article II:3.

[1]Adjustments in the CCT will be made annually, on 1 October.

10. Indeed, the move toward standardization of the specific duties in the CCT, to be made on 1 January 1979, does not involve any modification or withdrawal of EEC concessions, since these have never been expressed in terms of the respective currencies of the member States. If the amounts in national currencies corresponding to the specific duties had been adjusted in proportion to their fluctuation away from the unit of account, as allowed under the provisions governing bindings, the result would be less favourable for contracting parties than that resulting from alignment with the EUA, because the latter is at a level lower than the EUA par value. Far from diminishing the value of EEC concessions, the UA in fact implies a reduction of specific duties which the EEC, under the terms of its schedule of bindings, would be justified in applying in pursuance of Article II. Nor does this alignment neutralize the erosion effects on specific duties resulting inevitably from the general depreciation of currencies in relation to general levels of world prices. It is simply an up-dating operation comprising reductions and increases of specific duties expressed in terms of national currencies, so as in this way to ensure a return to a unified common customs tariff in accordance with the obligations established by Article XXIV:8(a)(ii). Nor is it a matter of an upward adjustment of specific duties following a monetary devaluation in excess of 20 per cent (Article II:6(a)), because the bindings concerned have never been expressed in terms of national currencies and the purpose of the alignment is not to offset a devaluation. Lastly, the alignment does not alter the method of converting currencies so as to impair the value of any concessions, and is thus consistent with the provisions of Article II:3 of the General Agreement.

11. The delegation of the Commission is at the disposal of any contracting parties wishing to obtain further clarification and information on the modalities and reasons for the intended alignment of specific duties and other specific elements of the common customs tariff.