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GATT TRADE POLICY REVIEW

THE EUROPEAN COMMUNITIES

On 15-16 April 1991, the GATT Council will conduct a comprehensive examination of the trade policies of the EC. The examination will be based on reports prepared by the EC and the GATT Secretariat.

The reports cover all aspects of the EC's trade policy, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the single market process; and trade-related aspects of developments in the monetary and financial areas.

The trade policy review mechanism (TPRM) was launched in December 1989 as one of the early results of the Uruguay Round to enable a regular collective evaluation by the GATT council of the full range of trade policies of individual GATT members. In line with the established practice in GATT procedures, the European Communities count as a single trading entity.

Attached are summary extracts of the reports prepared respectively by the GATT Secretariat and the EC. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of the EC, including these two reports together with a record of the Council's discussion and of the Chairman's summing-up, will be published later in 1991, and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21, Switzerland.

Since December 1989, reviews of the following countries have been completed and are available from the GATT Secretariat: Australia, Canada, Colombia, Hong Kong, Japan, Morocco, New Zealand, Sweden and the United States.

TRADE POLICY REVIEW

THE EUROPEAN COMMUNITIES

Report by the GATT Secretariat - Summary Observations

(1) The European Communities in World Trade

The European Communities (EC) form the world's largest importer and exporter of merchandise. Including trade among member States (internal trade), the EC accounted for 38 per cent of merchandise traded internationally in 1989, up from 23 per cent in 1958 when the Treaty of Rome became effective. This expansion in market share reflects both rapid growth of internal trade as barriers to trade among member States were lifted and the progressive enlargement of the EC from six to twelve member States (see Chart).

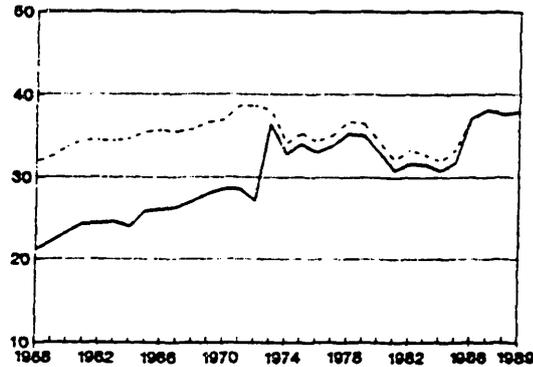
Excluding trade among member States, one fifth of world trade originated from or was destined for the EC in 1989, slightly less than the twelve EC members as a group had accounted for three decades ago. External exports and imports of the twelve EC members, as a group, thus expanded less than world merchandise trade and, in particular, the Communities' internal trade. The share of external in total merchandise trade of the twelve countries declined sharply from 63 to 40 per cent between 1958 and 1989.

While less dynamic than internal trade, external trade has been of major economic importance for the EC. In 1989, external exports of merchandise worth ECU 413 billion corresponded to 9½ per cent of the EC's GDP and external imports worth ECU 447 billion to 10 per cent. The external trade to GDP ratio of 19½ per cent in 1989 exceeded that of the United States and Japan, even though the Communities' internal market is larger.

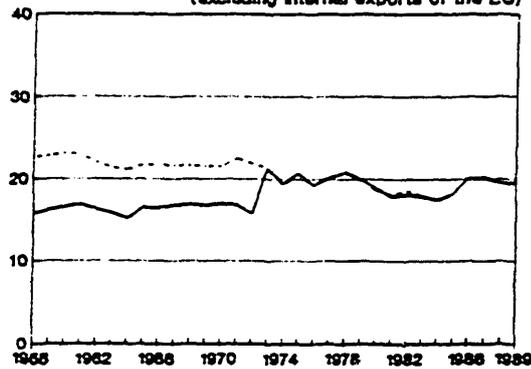
Trade in services and foreign direct investment at home and abroad add to the external economic dimension of the EC. In the 1980s, the Communities' external trade in commercial services expanded more rapidly than external merchandise trade, to reach an estimated ECU 118 billion for exports and ECU 108 billion for imports in 1988. Available information also suggests expansion of foreign direct investment links between the EC and its trading partners in recent years. This expansion was attracted by economic prospects in Europe and fostered by financial deregulation, but possibly also induced by uncertainty about conditions of future access to EC markets. Investment links with the United States have been particularly strong.

Merchandise exports of the European Communities, 1958-89 (Per cent)

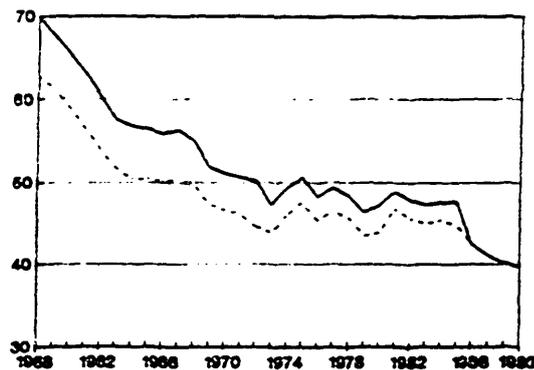
External and internal exports of the EC in world trade



External exports of the EC in world trade
(excluding internal exports of the EC)



Share of external exports in total exports of the EC



— EC as at the time -- EC12

Note: EC as at the time: EC6 from 1958 to 1972; EC9 from 1973 to 1980; EC10 from 1981 to 1985; EC12 from 1986 to the present time

Source: Eurostat.

The United States has also been the Communities' single most important trading partner, with a share of about 19 per cent in external exports and imports of merchandise in 1989. While in the 1980s merchandise trade between the EC and the United States lagged behind the Communities' trade expansion with other trading partners, trade relations with Japan developed dynamically. Within a decade, Japan's share doubled to reach 10½ per cent of total external imports of merchandise and 5 per cent of total external exports. Despite the rapid growth of exports to Japan, Austria, Sweden and Switzerland each remained larger outlets for merchandise made in the EC. As a group, EFTA countries were the market for close to one third of external exports of the EC and the source of more than one quarter of external imports of merchandise in 1989.

The developing countries are even more important trading partners. However, their shares in external merchandise trade declined from 44½ (exports) and 45½ (imports) per cent in 1981 to 32 and 31 per cent in 1989. This development reflects the decline in the ECU value of EC trade with petroleum exporting developing countries, in particular in the Middle East, and with heavily indebted developing countries in Latin America and Africa. EC imports and exports in merchandise trade with Asian developing countries doubled during the same time, boosting their share in external exports to 11½ per cent and in external imports to 12 per cent in 1989. These countries, as a group, have become more important trading partners for the EC than central and eastern Europe.

The average figures for the EC as a whole mask a wide variation of trade levels and intensities among member States. In 1990, trade to GDP ratios ranged from 12½ per cent (Spain) to 62½ per cent (Belgium-Luxembourg) for merchandise exports and from 18 per cent (Italy) to 64½ per cent (Belgium-Luxembourg) for imports. As regards the importance of extra-Community trade in five smaller countries (Belgium, Luxembourg, Ireland, the Netherlands, Portugal), external exports represent less than 30 per cent of total exports of merchandise. France has the weakest extra-Community trade links among the larger member States, with external exports accounting for close to two-fifths of total exports of merchandise. The share of external in total trade is particularly high for Denmark and the United Kingdom, reflecting in part their historical EFTA relations and, in case of the United Kingdom, the ties to the Commonwealth.

Specialization in overall international trade also differs substantially among member States. For example, according to the breakdown of trade into eighteen major product groups routinely used by the GATT Secretariat, automotive products ranked top in the export baskets of Belgium, Germany and Spain in 1988, with exports having expanded at above average rates in the 1980s. In Denmark, France, Greece, Ireland and the Netherlands, food products were the leading export item, even though export performance had been below average in the 1980s. For Greece and Portugal, clothing alone accounted for about one fifth of total merchandise exports in 1988. Import patterns show a similar spread. This variety in trade interests among member States is an important factor behind the design and conduct of the external trade policies of the EC and, ultimately, the Communities' positions in the GATT system.

(2) Institutional Framework

Economic integration among EC member States since 1958 has been accompanied, and promoted, by a gradual shift of sovereignty from the national to the Community level. This process has neither been steady, nor progressed at equal speed in individual trade policy areas.

Due to leads and lags in the integration process and to remaining genuine national sovereignty, there is no single mechanism of formulating, co-ordinating and implementing the broad range of trade-related policies in the EC. Depending on the subject, policy competences are conferred on the EC or shared, to varying degrees, between the EC and the national authorities.

Under the EEC Treaty, only the Commission can initiate common policies. Article 113 provides that the Commission shall submit proposals to the Council of Ministers for the putting into effect of the common commercial policy. The decisions are taken by the Council by qualified majority voting. The Council frequently convenes on an issue-related basis, involving the 12 Ministers in charge. For instance, decisions concerning agriculture are mostly taken by the "Agricultural Council", comprising the Ministers of Agriculture. Sector-specific views may thus carry considerable weight in the formulation of trade-related policies, as opposed to overall economic or trade policy considerations.

For the day-to-day conduct of policies, issue-specific Committees are established in which the Commission consults or cooperates with member States. The Committee system covers a wide range of questions such as the management of agricultural markets, the initiation of anti-dumping investigations or the interpretation of rules of origin. At times, the sophisticated committee procedures ("comitology") have led to frictions in the decision-making process.

Currently, the influence of the European Parliament on trade-related policies is mainly limited to an advisory rôle. The Parliament has certain supervisory functions with respect to the Commission; the Council is not accountable to it. In contrast, judicial review by the European Court of Justice has had a major impact on certain EC trade policies.

At the Communities' level, there is no statutory independent body regularly reviewing trade-related policies, and the Commission has indicated no intention to consider the establishment of such a body.

Policies which could distort intra-EC trade and competition, including support to industry by member States or anti-competitive agreements between enterprises, are generally prohibited. Under Community law, the Commission is authorized to vet such practices and, as necessary, to intervene. However, there are no such independent institutions as the anti-monopoly offices of individual member States.

The present institutional setting is likely to undergo considerable changes as the economic and political integration in the Communities proceeds.

(3) Trade Policy Features and Trends

(i) Recent evolution

The evolution of the EC trade régime and of trade-related policies over recent years was marked by the Internal Market programme, by the extension of preferential trade relations, and by efforts to develop new multilateral approaches in the Uruguay Round.

The Internal Market programme aims to achieve, by the end of 1992, "an area without internal frontiers in which the free movements of goods, services and capital is ensured in accordance of the provisions of the EEC Treaty". The EC and member States have made considerable progress towards this objective by formulating, passing and, to a lesser extent, implementing legislation. The prospects of a unified EC market are likely to have been a major factor behind the surge in business investment and economic activity in almost all member States in recent years.

However, a hard core of controversial issues in the Internal Market context remains to be settled. For example, basic decisions on the future common régime for certain "sensitive products", such as passenger cars, are pending. Consensus has to be ensured that intra-EC border measures under Article 115 of the EEC Treaty, and any substitutes such as type registration procedures, will no longer be applied as from 1 January 1993. Some proposals relating to the harmonization and mutual recognition of standards have raised concerns. For example, it has been argued that requirements for the interworking of telecommunications terminal equipment with the network could be implemented in a manner that would limit trade opportunities, particularly in new and innovative equipment.

While the Internal Market programme aims at unifying conditions of competition within the EC area, the long-term trend in the Communities' external trade relations has been towards diversifying conditions of access to its market. For example, a complex hierarchy of preferential arrangements has evolved, based on free-trade agreements (with the six EFTA countries and with Israel), association agreements (with Turkey, Malta, Cyprus and with the ACP countries), cooperation agreements (with eight Mediterranean countries) and the (unilateral) generalized system of preferences of the EC. In total, some 60 per cent of external EC imports originate from countries participating in some form of preferential trade scheme. Negotiations on new trade agreements with several eastern and central European countries and with the Gulf Co-operation Council are underway.

Details differ substantially among individual arrangements. However, as a common feature, imports from preferential sources only benefit partly from preferential treatment. Sensitive imports such as most agricultural products are either completely excluded from the schemes or preferences are

limited by seasonal calendars or quantitative ceilings. Preferences for industrial products are subject to safeguard provisions. In addition, some beneficiaries have agreed to restrain their exports of sensitive product categories, for example textiles. Also, origin requirements, including restrictions on the regional cumulation of processing stages among preferential trading partners, have operated as a factor limiting benefits from preferences. Less advanced developing countries have found it particularly difficult to meet minimum processing provisions under the EC GSP scheme.

An important result of the Uruguay Round would thus be to achieve both a reduction in the overall level of the Communities' external protection and a lessening of the disparities in the treatment of third country suppliers. This point gains in significance in view of a possible further geographical extension of the EC and the current negotiations to create an European Economic Space.

Of course, the Round has many more implications for the EC, covering virtually every aspect of its foreign trade régime. Reflecting its wide trade interests, the EC has played a very active rôle and contributed a large number of negotiating proposals. For many EC initiatives in the Round, the removal of internal barriers has facilitated the negotiations in a multilateral context just as the need to negotiate multilaterally has served as a catalyst for internal trade liberalization. However, the Round has also shown the difficulties in coming to a common negotiating position within the EC, and the inflexibility inherent in the decision-making system once a common position has been agreed upon.

(ii) Type and incidence of trade policy instruments

The EC and individual member States operate a complex foreign trade régime. The common customs tariff is only one among many trade-related instruments, and in a number of product areas it is not the decisive measure in regulating trade flows.

It is difficult to quantify the overall importance, in terms of restrictiveness and frequency, of measures such as import prohibitions, non-automatic licensing, import quotas, variable levies, minimum price regulations or export restraint arrangements. However, there is evidence that such measures are implemented in a wide range of product areas. For example, rough estimates for mid-1990, based on a breakdown of some 9,500 tariff items into 108 product categories, suggest that in about two-thirds of all categories imports of at least one item in at least one member State were affected by such measures.

EC trade policies have shown a propensity for sector-specific solutions, resulting in large differences in the levels of protection across industries. Coal and steel are regulated in a separate legal framework, established prior to the EEC (ECSC Treaty), while agriculture has a special status under the Treaty of Rome. Other sector-specific régimes have evolved over time in response to structural adjustment pressures.

The bulk of agricultural commodities produced and consumed in the EC are decoupled from the world market through a system of variable levies. Reflecting the restrictiveness of the system, the product categories subject to variable levies accounted for no more than 12 per cent of extra-Community food imports in 1988 (EC 10). The leading import items were coffee, soybeans, oilcakes, bananas, crustaceans and molluscs, to which the system does not apply. Oils and fats enter under low levels of border protection, but internal production is highly supported through compensatory payments to processors (ECU 6 billion budgeted for 1991). A range of other agricultural commodities outside the variable levy system face substantial tariffs, including specific tariffs (wine and spirits), seasonal tariffs (certain fruits and vegetables, cut flowers) and alternate tariffs (tobacco, apples and some other fruits and vegetables). For wine, some fruit and vegetables, and certain fishery products, countervailing charges or taxes are imposed if exporters do not comply with established reference prices.

Farm incomes have been supported mainly through price policies. High internal prices in the EC have stimulated agricultural output, and production has exceeded EC consumption for a growing number of commodities over the years. In 1988, self-sufficiency ratios ranged between 100 and 129 per cent for products such as beef and veal, pigmeat, poultry, milk, cereals, olive oil, wine, sugar and vegetables, accounting for a combined share of about three-quarters of EC agricultural output. Stockholding, denaturalization and subsidization of exports have been among the main measures to dispose of excess supply. In 1989, export restitutions for agricultural products amounted to ECU 8.2 billion, more than twice their 1982 level. EC export subsidies for cereals, milk, milk products and beef alone exceeded ECU 6 billion.

To contain further production growth, the EC has experimented, on a sector by sector basis, with a wide range of price- and quantity-related measures. In the late 1980s, the so-called production stabilizers contributed to drastic reductions in EC stock levels of butter, wheat and beef, while other factors such as the drought-related shortfall of production in North America and elsewhere were also at work. More recent data point to the re-emergence of substantial surpluses, a development also related to expanding world output, changing consumer preferences and the Gulf crisis. For example, by the end of January 1991 public stocks of beef stood at 704,000 tonnes, up from 130,000 tonnes a year ago.

Recent estimates (OECD) suggest that in 1989 the Common Agricultural Policy cost EC consumers ECU 49 billion and EC taxpayers 40 billion, adding up to an ECU 89 billion transfer to farmers. The transfers from consumers are a disproportionate burden for lower income groups because of the relatively large share of food in their consumption expenditures. A minority of EC farmers receives the bulk of the assistance, due to the large differences in farm size, production and productivity in the Communities (some 20 per cent of EC farms account for 80 per cent of agriculture output.) The majority of disputes with trading partners in which the EC has been involved under Article XXIII of the GATT concerned agricultural and food products. Against this background, in January 1991,

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the Commission presented proposals for a major overhaul of the Common Agricultural Policy.

While variable levies, complemented by export subsidies, are major trade measures in agriculture, tariffs play a more prominent rôle for other primary commodities and industrial products. On average of all non-agricultural products, tariff protection in the EC is moderate, with a simple average tariff of 7.3 per cent (1988). Items such as crude petroleum, copper, nickel, tin, wood, hides, skins and several other industrial raw materials enter duty-free into the EC; border measures for many semi-manufactures and finished industrial products are mainly limited to low or moderate ad valorem tariffs.

Overall, the dispersion of tariffs across the product range is limited, but a number of tariff peaks exist. For example, tariffs on certain motor vehicles and footwear are around 20 per cent; duties on manufactured tobacco range from 26 to 117 per cent. In several product areas, in particular resource-based manufactures, EC tariffs increase by stage of processing (tariff escalation).

Almost all industrial tariffs are bound, thus providing for a degree of stability and predictability. However, the economic value of tariff bindings has been eroded by measures such as sector-specific bilateral arrangements, frequently targeted against the most competitive foreign suppliers.

The EC textiles and clothing industries, for example, are mainly shielded by 19 bilateral restraint agreements under the Multifibre Arrangement (MFA IV), covering 46 per cent of external EC textile imports in 1988. Imports from Mediterranean countries, partly under self-restraints, accounted for an additional 22½ per cent. Moreover, there are several autonomous restrictions of member States against State-trading countries. The Textiles Surveillance Body of the GATT observed, on balance, some relaxation and increase in flexibility of EC restraint arrangements under MFA IV, but characterized the product coverage as comprehensive and the total sum of restraints as high. Through its technical regulations, the MFA system of the EC has become highly complex, its technical complexity becoming a factor which may make it difficult for exporters to utilize fully the product- and country-specific annual quotas by the EC.

As in the case of agriculture, protection of the EC textiles and clothing industries has come at a substantial cost for foreign suppliers and EC consumers, particularly lower-income groups. According to one study, clothing prices in the United Kingdom would have been about 5 per cent lower in 1988 if there had been no MFA. The annual cost to consumers of protecting one job in the industry was estimated to exceed three times the average annual earnings of a clothing worker.

From the early example of textiles and clothing, the selective approach to import-related adjustment problems has extended to a wide range of sectors, including traditional as well as technologically-advanced

manufactures. Some 50 bilateral restraint arrangements are known to be currently in place, involving the EC, individual member States or their industries. The measures take many different forms, but are mostly administered on the export side. Japan has been most frequently involved, restraining, moderating or monitoring exports of certain textile and clothing products, machinery, motor vehicles, electrical and electronic household equipment, and metal flatware. Korean producers appear to rank next with measures, for example, on frozen squid, footwear and video-tape recorders. The EC Commission has indicated that it is not aware of some of these measures.

It is difficult to assess the recent trend in this area, because of the inherent lack of transparency and, in some cases, the difficulties of distinguishing between such arrangements and other measures taken, for example, in an anti-dumping context. The number and coverage of steel arrangements appears to have been curbed in recent years, leaving some 10 arrangements on steel imports into the Communities in place (involving Brazil, three EFTA countries and several central and eastern European countries). Consultations are underway with the objective of replacing national approaches to car imports from Japan by an EC wide restraint arrangement, also covering Japanese-brand cars produced inside the EC. The arrangement is expected to provide protection over a number of years, on a degressive scale, with particular regard to certain highly protected national markets.

The EC network of bilateral restraint arrangements has reduced transparency in the multilateral trading system and introduced strong elements of discrimination. In many cases, information on parties involved, trade coverage, degree of restrictiveness, duration or regional application within the EC is limited. The arrangements have tended to promote cartelistic behaviour at home and abroad. Their impact on third countries, and on EC member States not directly involved is often difficult to assess, as are their costs to EC user industries, consumers and taxpayers (for example, in the form of tariff revenue forgone).

The arrangements do not require, as is envisaged for safeguard measures under GATT rules, that an increase in import restrictions in a particular sector be compensated with liberalization elsewhere in the economy. Checks on domestic requests for protection are thus eliminated. Originally intended to serve as a temporary device, bilateral restraint arrangements, in one form or another, have shown a tendency to become entrenched, suggesting that protection delayed rather than promoted structural adjustment in the industries concerned.

While certain trade policy instruments, in particular the customs tariff, are generally applied on an EC-wide basis, levels of openness have continued to vary across individual member States. One reason is the uneven distribution among member States of sectors highly protected through the measures mentioned above. For example, in 1989 textiles and clothing contributed 1 per cent to manufacturing output in the Netherlands, but 15 per cent in Portugal. However, there are additional factors. In agriculture, the common market has been segmented through specific multiple

exchange rate arrangements. In several sectors, individual member States have continued to apply measures which can insulate the domestic market or otherwise distort competition.

For example, in mid-1990, France maintained 71 quantitative import restrictions (at four-digit item level), covering goods such as food products, control instruments, clocks and watches, consumer electronics, transistors and integrated circuits. Italy maintained 48 such measures. Estimates by the International Energy Agency suggest that total public support per tonne of coal produced is about four times higher in Germany than in the United Kingdom. Banana imports from non-ACP sources are subject to a zero-tariff quota in Germany, a 20 per cent ad valorem duty in five EC member countries (Belgium, Denmark, Ireland, Luxembourg, the Netherlands), and individual quantitative restrictions in the six remaining countries. Large differences in conditions of competition also exist in automobiles. While certain national markets are protected by way of bilateral arrangements, Italy and Spain have limited direct imports of Japanese cars under bilateral quotas to 2,500 and 1,000 units per year. Registration procedures in France prevent Japanese car imports from exceeding a market share of 3 per cent.

There are thus instances where measures of questionable nature under EEC law have been taken at the national level to keep out indirect imports. Where the external restrictions are covered by EC law, individual member States may resort, upon approval by the Commission, to national interventions in intra-EC trade under Article 115 of the EEC Treaty. Authorization is usually granted for a maximum period of one year, but can be renewed. For example, France and Italy have operated restrictions on TV sets and radios under Article 115 since 1974. In 1990, individual member States were authorized to restrict intra-EC trade in 79 cases, down from 176 cases in 1985. In the run-up to 1992, the trend has been clearly towards a reduction in the number of Article 115 authorizations.

Agriculture aside, subsidies are predominantly granted by member States. A recent study by the EC Commission shows that over the past decade, subsidies for the steel and shipbuilding sectors were cut in the EC, but for other industries expanded roughly in line with value added. For the period 1986-88, the Commission's estimates put subsidies to the EC manufacturing sector at 4 per cent of gross value added, ranging from 2 per cent in Denmark to an estimated 15½ per cent in Greece. Support intensities appear to differ substantially among industries.

The Commission has increased efforts in recent years to prevent unco-ordinated subsidization by member States. Between 1986 and 1989, member States notified a total of 1,121 aid proposals. In more than three-quarters of the cases, the Commission raised no objection. However, some member States have been reluctant to notify the Commission, in conformity with established requirements, their intention to grant support. For example, France had failed to notify more than one-third of the aids examined by the Commission between 1985 and 1987. (In preparing this report, a questionnaire from the GATT Secretariat submitted, through the

Commission, to all member States remained without response from Greece, Ireland, Italy and Luxembourg).

While support in the form of quota arrangements and subsidies has been extended to a number of traditional sectors such as agriculture, textiles, clothing, steel and automobiles, the EC and member States have also supported the development of new technologies and technology-intensive sectors. For example, several support programmes at the EC level are geared to advance information technologies and the automation of production. However, EC funds for R&D do not exceed 4½ per cent of total public expenditure for civil research and development in the Communities.

From a sectoral perspective, the EC Commission has ranked aerospace among the sectors of crucial importance for Europe's industrial and technological independence. The Airbus programme accounts for about 50 per cent of civil aerospace turnover in the EC. Germany, one of the four Airbus countries, has spent close to DM 11 billion from the mid-1960s to 1989 on the project (a German and a French company, each, hold a share of 38 per cent stake in the project). The programme has been a major bone of contention in EC trade relations with the United States, and, in February 1991, led to a request by the United States to set up a Panel by the Subsidies Committee of the GATT.

Another way of promoting national industries is public procurement. In 1987, total public procurement in the EC was estimated at about ECU 590 billion, or 16 per cent of GDP. Available evidence suggests that import penetration in the public sector of the EC is substantially lower than in the private sector.

Only about one-fifth of the public contracts awarded are believed to have complied with the EC provisions on competitive tendering and EC-wide advertising. In part, this reflects the current exclusion of four sectors from the regulations (transport, energy, water supply, telecommunication services) and the fact that a large number of contracts has remained below the threshold levels (ECU 134,000 for items covered by the GATT Code and ECU 200,000 otherwise).

From January 1993, most member States will apply common procurement rules to the four excluded sectors (Greece, Portugal and Spain will follow later). A certain European preference is envisaged, restraining bids from firms located in countries with which the EC has no agreement ensuring effective market opening in public procurement. This provision may be reviewed in the light of the results of the Uruguay Round.

EC trade is affected by a large variety of other arrangements and policies, pertaining, for example, to taxation, State trading, and countertrade measures. Thus, certain member States maintain excise taxes on products such as coffee, tea or cocoa which are predominantly or exclusively imported. In 1988, the ad valorem equivalent of the German tax on raw coffee was estimated at 70 per cent of the average import price. As from 1 January 1991, Italy has increased its taxes on coffee and cocoa by factors between four and seven.

Some member States maintain State monopolies in areas such as petroleum, alcohol, tobacco and fertilizers. In a number of cases, the Commission has acted against discriminatory practices in intra-EC trade on the part of these monopolies.

As for countertrade, most member States stress that the few deals known are usually private sector arrangements. However, as part of defence-related purchases involving imports, active offset policies appear to be widespread.

Trade in many agricultural and industrial products are subject to health and sanitary regulations or standards. The recent dispute with the United States concerning the EC Hormone Directive, as well as the recent discussions among EC member States on intra-EC exports of cattle from countries affected by "mad cow" disease highlight the difficulties in the area of sanitary (or phytosanitary) regulations in distinguishing between legitimate and protectionist use of such measures.

Other trade controls and restrictions are in place to protect life, health and the environment. Affected products include certain chemicals and drugs, contaminated foodstuffs, environmentally dangerous substances and arms and ammunitions. All member States, except for Ireland, control exports of defence-related items in the framework of COCOM. There are also export restrictions to preserve national treasures.

A voluntary restraint arrangement between the EC and the United States limits EC steel exports to 7 per cent of domestic steel consumption in the United States. This arrangement is to lapse in March 1992.

Member States are engaged in a wide range of export promotion measures, such as providing trade intelligence and assistance in marketing and participation in fairs abroad. All member States participate in the OECD "Consensus" on officially supported export credits.

(iii) Temporary measures

In contrast to its use of selective arrangements, the EC has rarely resorted to safeguard actions under Article XIX of the GATT. The three Article XIX measures maintained by the EC were introduced in 1982, 1985 and 1989, respectively, setting minimum prices for fruit imports. In addition, there is one Article XIX action by one member State (Germany) relating to coal imports. Dating back to 1958, this is by far the longest-standing Article XIX action in GATT history.

The EC ranks among the most intense users of anti-dumping measures worldwide. In the period 1980 to 1989, a total of 256 measures were implemented, mostly in the form of price undertakings. Nearly one half of the measures related to chemicals and allied products, followed by mechanical machinery (34), textiles (22), steel, office equipment and consumer electronics. In 1989, 120 measures were in place; 27 new cases were initiated, with 14 concerning suppliers located in Asia. In January 1990, eleven Japanese semi-conductor producers agreed on a price

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undertaking for DRAMs. In this context, the Commission has emphasized the importance of a strong electronics industry in the EC and the strategic rôle of these semi-conductors. In February 1991, the Commission submitted for approval by the EC Council, a similar arrangement for another type of semi-conductors (EPROM), involving price undertakings by seven Japanese producers and a 94 per cent anti-dumping duty on EPROM imports from unspecified firms, in particular any newcomer who would not be prepared to engage in a price undertaking.

EC law requires that anti-dumping duties be limited to the amount necessary to remove the injury. In about two-fifths of all cases (companies) between 1987 and 1989, definitive duties were less than the full margin of dumping. A public interest clause has apparently had no major impact on EC anti-dumping practices.

Related to the complexity of cases and a mounting workload, an increasing number of anti-dumping investigations was not concluded within the normal investigation period of 12 months. For example, only two of the 40 investigations launched between mid-1987 and mid-1988 were terminated within one year.

In recent years, the Commission has rejected public criticism that certain provisions of EC anti-dumping law and practices, in particular related to the establishment of constructed normal values and constructed export prices, are biased in favour of positive dumping findings. In this context, it has been pointed out that not more than 0.9 per cent of total EC imports of merchandise had been subject to anti-dumping duties (excluding price undertakings) in 1987. However, the uncertainty generated, and signals sent, by frequent resort to anti-dumping procedures are likely to affect larger volumes of trade. For example, there is evidence that, in view of possible anti-dumping action, trading partners have preferred to restrain voluntarily their exports to the Communities.

EC anti-dumping legislation has been extended to cover, under certain conditions, including a local content of less than 40 per cent, products assembled within the EC from imported inputs ("screwdriver-plant legislation"). In 1990, a GATT Panel found this legislation inconsistent with GATT provisions.

Between 1980 and 1984, the EC took five anti-subsidy actions, concerning shoe imports from Brazil and steel imports from Spain and Brazil.

EC anti-dumping and countervailing duty actions are subject to a sunset clause, introduced in 1984. As a general rule, measures lapse after five years. There are review procedures.

(iv) New initiatives

Trade-related policies of the EC, including their institutional framework, are in a process of rapid change. The Internal Market programme is to be completed by the end of 1992, involving both agreement among

member States on a range of unsettled issues and some arrangements with third countries. In December 1990, conferences on Economic and Monetary Union and on Political Union were established.

At the multilateral level, the EC has reiterated its commitment to work towards a successful conclusion of the Uruguay Round.

The EC has also been active in promoting trade liberalization in a European context, including the negotiations aiming at creating a European Economic Area. A leading rôle has been taken by the Communities in assisting the restructuring process in central and eastern European countries, including new trade agreements between the EC and these countries.

Four countries have applied for EC membership (Turkey, Austria, Cyprus, Malta). The Swedish Parliament has voted to apply for membership. The EC has postponed consideration of applications until after 1992.

(4) Trade Policies and Foreign Trading Partners

The Internal Market programme has injected new dynamism into many EC markets, stimulated investment and spurred economic growth in the Communities. Through the spillover into import demand, the Communities foreign trading partners have shared in the benefits.

In the process, new opportunities for trade have been opened. The removal of barriers to intra-EC trade has reduced the economic distance to EC markets for both insiders and outsiders. For example, all competitors are gaining from the reduced market segmentation through the principle of mutual recognition of tests and certificates within the EC.

Initial concerns that, in the course of the Internal Market programme, the EC would turn inward-looking have not been confirmed to date. There is little evidence of any recent major intensification of protective measures on the part of the EC. Indeed, in some areas such as steel some improvement in market access has been achieved. For a wide range of industrial raw materials, fuels and manufactures, moderate bound tariffs are the main factor affecting access to the EC market.

At the same time, the EC continues to accord high levels of protection to producers in a notable number of product areas. In several cases, EC trade restrictions are primarily directed against competing supply from developing countries, including heavily-indebted ones, and affect sectors in which the emerging market economies in central and eastern Europe can be expected to have a comparative advantage.

The network of preferential arrangements maintained by the EC, either on a contractual basis or unilaterally, may offset some of the effects of its protective régime in individual cases. However, it also creates numerous problems of discrimination between different suppliers.

Import restrictions of the EC, in the case of agricultural products coupled with subsidized exports, have distorted competition in a number of world markets. The EC, it needs to be stressed, is not alone in this respect. Also, many EC firms face considerable barriers in exporting to major industrial and many developing countries. Better access opportunities abroad could help marshal support for rationalizing the Communities' trade régime.

In its own approach to import-related industrial adjustment problems, the EC has preferred pragmatic solutions, frequently in the form of bilateral restraint arrangements. In one case, it has also complied with the request by a major trading partner to restrain EC exports. Continuing with this approach would be a major threat for a multilateral trading system which is founded on the principles of non-discrimination, transparency and undistorted competition. It is therefore encouraging to note that, in a recent communication to the Council and the European Parliament, the Commission has strongly argued against a defensive sector-specific approach to problems of structural adjustment.

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

TRADE POLICY REVIEW

THE EUROPEAN COMMUNITIES

Report by the European Communities - Summary Extracts

EXECUTIVE SUMMARY

The European Community's approach to the Trade Policy Review report on its trade policy and practices has been to consider that its own report and that submitted by the GATT Secretariat should be complementary to each other. Accordingly the Community would wish, without endorsing every element in the GATT report (C/RM/S....) in detail, to draw attention to the description in that report of its basic institutional and legal structure as it affects the trade policy decision-making process. The extensive material in chapters IV and V of that report, on the use by the Community of a wide range of trade measures affecting imports and exports and presenting an analysis of the trade regime in a large number of individual sectors, is also a valuable introduction to the subject.

Reflecting this general approach, the Community's own report aims to give a broader overview of policy and practice against the background of its particular historical and economic development. It gives special emphasis to those aspects of its structure and development which are unique, whether in the sense that it represents in the international trade field a functional, integrated customs union with a single external trade policy, or in the wider sense of its steady evolution towards a fully developed political, economic and monetary union.

Thus in Section I - the trade policy framework - the report establishes the general context, drawing on the successive changes since the Treaty of Rome was signed in 1957 and looking forward to possible future developments. It also presents the main characteristics of the Community economy, emphasising that there is still a certain lack of homogeneity between the twelve member countries; and situates the Community in the context of the global economy and of international trade. The relationship between internal and external trade flows and their importance as a dynamic factor of economic growth within the Community, the vital role of external trade in the collective GNP of the twelve Member States, and the significance of the Community in international trade (accounting as a group for over 20 per cent of world imports and exports) are all analysed and underlined.

In the international trade context, the report draws attention to the specific nature of the Community in terms of its participation in the GATT, in trade negotiations and in all other activities; sets out its trade policy objectives, with particular attention to the relationship between support for the multilateral system and for regional economic integration; and indicates the principal features and consequences of its decision-making processes.

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In section II - the implementation of trade policies - the Community report builds on the material in the GATT document by presenting its own picture of developments in a selection of sectors and policy areas.

Thus it aims to underline the importance of the Community as one of the major import markets for agricultural products, for textiles and clothing and for motor vehicles -and contrasts this with the perception that seems often to be held that its import regimes in such areas are highly protectionist. In these and other sectors, including the vital area of trade in services, it aims to explain the Community approach and policy attitude in somewhat greater detail.

Furthermore, it presents a picture of the latest positive developments as regards the elimination of a certain number of specific import restrictions, justified in the past by the specific and different conditions of competition in trading partners; and it draws attention to certain features of its anti-dumping activity which are not always adequately known and appreciated in international trade circles.

Section III covers the relevant background against which the assessment of trade policies might be carried out. The first three chapters here are more macro-economic and analytical in character, presenting a more detailed picture of the Community economy and of its structure, linking this to the global economic environment and tracing the pattern of the Community's external trade with some comparative material on patterns in the USA and in Japan. A chapter is devoted to the structure of external trade relations with third countries, especially the preferential relationships with developing countries and the impact of trade (tariff) preferences on patterns of trade with beneficiaries and with other developing countries.

In conclusion the report refers briefly to the problems presented for Community exports by the barriers of its major trade partners as well as in developing countries; and mentions the specific problems arising out of dual pricing practices and export restrictions and the lack of balance in GATT obligations which follows from the absence of explicit commitment to the international trade rules at sub-federal level in certain major countries.

Chapter I.3: TRADE POLICY OBJECTIVES

Art. 110 of the Treaty of Rome expresses the Community's basic commercial policy objectives as follows:

"By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers. The common commercial policy shall take into account the favourable effect which the abolition of customs duties between Member States may have on the increase in the competitive strength of undertakings in those States."

The major and fundamental objective of the Community is therefore to support and strengthen the multilateral trading system, ie. the GATT as an institution and the set of rules governing international trade embodied in the General Agreement. Naturally this also includes other relevant agreements to which the Community is a party, such as the OECD Codes and the various agreements resulting from the Tokyo Round.

While a good proportion of the trade of Community countries is with each other (generally over 50 per cent, and in some cases nearly 70 per cent) external trade is still of vital importance to all twelve economies and a major element of their GDP and thus a strong component for growth (or lack of it). This explains the Community's long-standing attachment to the multilateral system which is seen to be by far the best means of ensuring the vigorous expansion of its external trade and of protecting its trade interests world wide.

In the short run this trade policy objective means full support for an early conclusion of the Uruguay Round. In its Programme for 1991, the Commission has recently stated:

"The Uruguay Round dominates the multilateral political scene. In 1991 the Community will be faced with the task of relaunching the discussions and, if a balanced agreement can be reached, of transposing the results of the negotiations into appropriate action and measures. The Commission will press ahead with the negotiations on agriculture, taking a global approach and making sure that the Community's partners give equivalent commitments. The coordinated reduction of tariffs and non-tariff barriers will call for an accurate assessment of the consequences for Community policies. The results of the Round will generate a great deal of work The Commission will continue the negotiations on services, taking care that the forward-looking role played by the Community in extending GATT rules and disciplines to the service sector does not upset the balance needed for opening up the single market. Special attention will be devoted to the consequences of the Uruguay Round for the fragile economies of the developing countries."

This in itself constitutes a formidable agenda.

There is of course a second basic policy objective which is to manage and implement the trade rules of the Community within the Community, to seek its further development in areas not yet fully covered (certain areas of public procurement and of trade in services) and to promote common external positions on trade issues, whether bilateral or multilateral. The internal component of this area of work is currently being pursued in the implementation of the Single Market project by 1 January 1993 (as explained in Chapter 5). The external component is a matter of regular discussion and consultation between the Commission and Member States in the institutional framework described in the GATT Secretariat report.

A key element in the management of the Community's trade policy is what used to be called "Commercial Defence", i.e. the execution of trade policy Regulations in force within the Community. As is fully explained in the GATT report, this includes such matters as safeguard measures, monitoring and surveillance (following complaints of injury to Community industry resulting from import surges); the application of Community legislation to deal with dumped and subsidised imports; as well as the management of sectorial policies for textiles, steel, shipbuilding, agriculture and fisheries.) Another important trade policy function is the management of the quantitative restrictions still existing in the Community common import regime - although it should be emphasised that after the rapid changes in Central and Eastern Europe over the last 18 months and in view of the elimination of internal frontiers in 1993, this function is already considerably reduced in its scope. (An indication of the way Commission departments are organised to deal with these policy questions is shown in Chart. I.1).

There is no specific trade policy objective, in a formal sense, in the agricultural sector. Trade in agriculture products is an integral part of the overall customs union which has been established and does not constitute an exception to the common trade policy, as it is set out in Article 110. The fact that the Community applies specific measures (variable levies and export restitutions) to trade exchanges in the agricultural sector is not in contradiction with the preceding statement; this is simply the consequence of the objectives laid down in the treaty for the common agricultural policy and of the Community's supply situation for agricultural products, as well as of the forecasts for production and for consumption that were at hand when the CAP was first established. The policy objectives of the common agricultural policy and the way it works at present, as well as some elements of reform that are under discussion, are set out in greater detail in section II, chapter 2 below.

Another objective of the Community's external trade regime is to provide support to the development and industrialisation efforts of the developing countries. This objective is realised by such programmes as the General System of Preferences, affecting tariffs, with special access advantages for the least developed countries; and above all by the Community's large network of trade and cooperation agreements with such

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countries worldwide. Many of these agreements extend preferential trade privileges, especially in Africa, the Caribbean and the Pacific, and in the Mediterranean region. The implications of this are further examined below.

The Community's basic attitude in favour of the multilateral trade system has of course, since the inception of the GATT, existed hand-in-hand with its enthusiastic support for and active involvement in free trade arrangements of a regional character. This is perhaps natural for a party which is itself the classic example, in GATT terms, of an integrated customs union: in any event it would be no exaggeration to say that the Community has consistently, and from its earliest days in the late 1950s and 1960s, been the most vigorous (inventive) practitioner of the Article XXIV free trade agreement.

For the Community, there is indeed no contradiction between these two positions. We have always believed that regional trade arrangements complement the multilateral system and represent an intermediate step towards the ideal of trade that is free of all customs duties and import restrictions among all nations. Progress on a more limited, regional basis, among countries with homogeneous economies and with close links in the geographical sense, may be the best achievable in the medium term.

Thus the Community has always argued that Art. XXIV is NOT to be considered in any way as a formal derogation from the basic most-favoured-nation rule to be found in Art. I of GATT. Rather the General Agreement has from the start envisaged both types of approach as equally valid in the legal sense and equally consistent with the overall aims of the Contracting Parties. This point has not always been perceived in the same way by other countries who have tended to give more emphasis to the Article I aspect and who therefore tend to see more probability of trade diversion from such arrangements than they do opportunities for trade creation.

The Community is happy to note that these perceptions are now changing and that its own views are being increasingly supported by recent developments in areas as far apart as Australasia, North America, ASEAN, and Central and South America.

Within the broad European region the Community continues to pursue this same approach, both in seeking ever closer forms of economic association with its EFTA partners and in laying a new basis of association with the countries of Central and Eastern Europe. These plans do of course represent policy objectives which go considerably wider than just trade policy and are designed to be a major contribution to future economic and political stability in the region.

Chapter I.5: RECENT DEVELOPMENTS AND FUTURE PROSPECTS

I.5.1. The 1992 Single Market

The background and scope of the European Community's 1992 programme to finally complete the Single Community Market, foreseen as a founding element in the Treaty of Rome, with 350 million consumers and free movement of goods, services, people and capital has already been described in the GATT Secretariat's Report. It is therefore the intention here to concentrate on the trade liberalising and economic effects of the European Community's Single Market.

The European Community has made clear that one of the central objectives of the Single Market programme is that of trade liberalisation and the Council has noted "that one of the aims of the progress of work to achieve the Single Market coincides with those of the Uruguay Round, viz. to strengthen and maintain the multilateral trading system". This parallel objective of trade liberalisation between the Uruguay Round and the Single Market has placed the European Community's approach to the trade policy aspects of the Single Market firmly within its longstanding trade policy of open multilateral trade based on the GATT. Community's Heads of State and Government have reaffirmed this approach at successive European Councils in declaring that the Europe of 1992 will be an open and partner Europe. The results of this policy will be, and indeed already are, the creation of new trade and investment opportunities both for the Community and more particularly its trade partners.

The completion of the Single European Market by the end of 1992 will result in an economic area comparable in size to economy of the United States.

The 1992 programme was designed in response to the unsatisfactory performance of the Community economy and the lack of satisfactory progress in Community integration. Gross domestic product grew only at an average annual rate of 1.9 per cent per annum in the 1974/85 period compared to 2.4 per cent for the US and 3.7 per cent for Japan. Furthermore large public deficits, high unemployment, a declining world share in manufactured products, particularly in strong demand sectors (e.g. high technology goods) were equally causes of concern in the Community.

A fragmented Community market was identified as one of the main reasons for this disappointing performance. This fragmentation of the Community market was caused by the remaining physical and technical barriers between Community countries, restrictive public procurement practices, fiscal differences particularly in indirect taxation (Excise duties, VAT) and regulated trade in services (notably financial services). Hence the 1992 programme which will abolish physical, technical and fiscal barriers and liberalise Community trade such as in services and public procurement.

The general economic effects of the 1992 Single Market programme are already visible in the transformation of the Community's economic performance. The main economic effect of the completion of the Single Market was to be the generation of additional growth in the Community brought about, inter alia, by increased efficiency (abolition of internal trade barriers resulting in better allocation of resources) and increased investment. This is already happening. Annual growth in the Community has averaged near or above 3 per cent since 1987, a substantial increase in comparison to the average rate of 1.9 per cent in 1974/84 period. Employment grew rapidly at a rate of 1.5 per cent in 1988-1990 and it is estimated that in the three year period 1988-90 5.5 million new jobs have been created. Investment growth rates between 1987-89 have been in the range of 5.5 to 8.4 per cent compared to 0.5 per cent during the 1974/82 period. The number of mergers by the largest European companies has doubled every three years rising from 208 in 1984-5 to 492 in 1988-89.

This improvement in general economic performance of the Community, as well as the elimination of internal barriers will create considerable new trade and investment opportunities for third countries. Community manufactured imports from third countries have increased by 34 per cent since 1985 and it is through such import growth that the benefits of the Single Market are transmitted to third countries. The Community accounts for about 20 per cent of world import demand, which underlines the important effect of this increasing import demand on the growth in world trade and the increase of export earnings of third countries.

These positive developments underline that the single market is already contributing to the realisation of the Community's objective of trade liberalisation and it will continue to do so.

While it is clear that there will be substantial trade liberalisation both for Community traders and those of third countries, it is useful to consider the specific measures within the 1992 programme in order to view the extent of these trade liberalising effects. It is from the specific measures required for the removal of physical barriers at the Community's internal borders (e.g. elimination of custom controls on goods) and technical barriers (e.g. harmonisation of standards, establishment of a common public procurement market) that the main trade liberalisation will flow.

The internal market means an area without internal frontiers (Article 8A). Its completion therefore implies the removal of the remaining controls on goods at the internal borders of the Community which impose burdensome and costly restrictions on the flow of goods within the Community. These arise in two principal areas - customs procedures (e.g. import documentation and veterinary controls) and disparities in the Community Common Commercial Policy (e.g. national quantitative restrictions).

The elimination of internal customs procedures will liberalise trade both for Community goods and third country imports into the Community. For example it will mean that third country imports will only be subject to one

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custom import procedure to enter the Community and thereafter can circulate freely within the Single Community Market without further customs control. The current Single Administrative Document required for Intra-Community trade will be abolished. Other custom procedures will be made uniform and simplified within the Community to ensure the free flow of goods throughout the Community.

However it is the necessary completion of the Community's Common Commercial Policy and the elimination of the remaining national quantitative restrictions, which will bring the most significant liberalisation for third country imports. This will eliminate disparities between commercial policy measures applied by Member States and thereby make the conditions prevailing at the markets of individual Member States more uniform. Residual national restrictions, whether or not they have been enforced by use of Article 115, have to be adapted or eliminated in order to complete the Community's Common Commercial Policy. Already surveillance measures authorized under Article 115 have been reduced from 1300 in 1987 to 185 in 1991.

The different national industrial standards, legal regulations and testing and certification requirements within the Community constitute perhaps the most substantial technical barrier to trade within the Community. The removal of such barriers is therefore crucial both to the completion of the Single Market and to the realisation of its full economic benefits.

The Community approach to removing these technical barriers and creating Common European Standards rests on two principles:

1. Mutual recognition of national rules.
2. Where appropriate, harmonisation of national legislation in cases where these create different levels of protection for the essential requirements of public health/safety, environmental and consumer safety.

This harmonisation leads to a significant advantage for the producer in that products manufactured in conformity with the resulting harmonised European Standard are presumed to conform to the essential requirements. European Standards are therefore not being made obligatory, but offer a "fast track" to the Community Market in the regulated sectors. The creation of a common body of rules for regulated product sectors rather than a plethora of different national rules will bring considerable savings and improved access for third countries.

Moreover, where possible, these European Standards are based on International Standards drawn up by the ISO or IEC. There is in addition close cooperation between the European standard setting bodies, CEN/CENELEC and the International Standards bodies of the ISO/IEC. For example draft European Standards are made available to the ISO/IEC and, under a recent decision, these European and International Standards bodies have agreed to work even more closely together; this includes the adoption of accelerated

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procedures for the application of International Standards as European Standards and improved procedures to avoid duplication of work on individual standards. All this reflects the Community's commitment to the enhancement of international standardisation as a way of removing technical barriers to trade.

The total value of government procurement including contracts awarded by firms in the public sector is estimated at 400 billion ECU (about 15 % of the Community's GDP). Hitherto, only 2% of public procurement contracts in the Community are awarded to firms from a Member State other than the Member State advertising the tender.

This clearly demonstrates the economic importance of the public procurement market in the Community and the need to create common rules for the establishment of a single public procurement market. The Community has already made substantial progress towards the opening up of its public procurement market with the adoption of measures on supply contracts, works contracts and "legal remedies" and the excluded sectors of water, energy, transport and telecommunications. The size of the Community's public procurement market underlines the importance of the liberalisation which will flow from these measures both for the Community and third countries. The Community is pursuing similar liberalisation at the international level in the context of the current negotiations in the GATT Government procurement code.

As already noted Services are the most important sector in the Community economy representing about two-thirds of Community GDP. This alone will ensure that the creation of a Single Community Market for services including banking, insurance, securities, transport, telecommunications and capital movements will generate substantial new trade opportunities. However the liberalisation and deregulation of these services markets will equally provide much improved access to the Community for third countries. As an illustration of the importance of these developments, the new Community banking market will be the largest single banking market in the world.

CHAPTER III.3: STRUCTURE OF TRADE RELATIONS

III.3.1 The Community's Trading Relations with Third Countries

The Community's trading relations are already briefly described in the GATT report. Accounting for about 20 per cent of world trade, the Community's trade pattern and its development reflects a large degree of similarity with that of the world. This section looks into some aspects of the Community's trading relations and draws in certain instances a comparison with those of Japan and the USA. Excluding intra-Community trade, these three markets accounted for 49.8 per cent of world imports in 1989, compared to 40.6 per cent in 1980.

During the eighties some profound changes have taken place in the structure of trade. In this respect the GATT report draws attention to the declining share of the developing countries in the Community's imports, which was reduced from 45.5 per cent in 1980 to 30.4 per cent in 1989. As

Table III.5

Geographical origin of imports of the EC, the USA and Japan
(in percentages)

	1980	1985	1989
Industrial countries - EC			
45.6 51.6 59.7			
- USA	51.8	64.2	60.8
- Japan	35.0	41.1	51.1
Developing countries - EC			45.5
38.1 30.4			
- USA	46.0	33.8	36.0
- Japan	60.1	52.3	41.4
Eastern Europe and China - EC			8.0
9.2 8.2			
- USA	1.1	1.8	3.1
- Japan	4.6	6.4	7.1
Other countries - EC		0.9	1.1
1.6			
- USA	1.1	0.2	0.1
- Japan	0.3	0.3	0.4

Source: COMTRADE

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can be seen from the table below, this is not an exclusive Community phenomenon. In the US and Japanese markets, the developing countries have also lost market share. Furthermore, despite this decline, the Community remains the most important market for the developing countries in general (ie. excluding the four Asian NIEs which have attained per capita income levels comparable with or above certain EC Member States).

Table III.5 shows that the sharpest decline in the share of developing countries in total imports has taken place in Japan, reflecting to a large extent the high dependency of this economy on imported fuel and other primary commodities of which the prices fell sharply in the eighties.¹ This illustrates the phenomenon that differences in the composition of imports of the Community, the USA and Japan, as well as associated commodity price movements, have a major influence on changes in the geographical origin of imports. It would be an error to interpret the table as an indicator that these markets have begun to offer less access. Table III.6 demonstrates this composition effect in some greater detail.

¹According to the IMF (Primary Commodities, Market developments and Outlook, Washington, June 1990), real prices of non-fuel primary commodities from developing countries fell by 28 per cent from 1980 to 1989. Average petroleum prices fell from 35.5 US dollar a barrel in 1980 to 17.2 US dollar a barrel in 1989.

Table III.6

Composition of Imports of the Community, the USA and Japan
(in percentages)

	1980	1985	1989
Primary commodities, excluding fuel - EC			
24.3 21.8 20.8			
- USA	15.7	12.1	11.3
- Japan	31.2	29.4	34.6
Fuel - EC	35.5	31.0	
14.8			
- USA	32.5	15.4	11.4
- Japan	49.9	43.1	20.8
Manufactures - EC		37.2	44.4
61.9			
- USA	49.1	69.4	74.5
- Japan	17.8	24.6	42.0
Other - EC	3.0	2.7	
2.5			
- USA	2.7	3.1	2.9
- Japan	1.1	2.9	2.7
Total	100	100	100

Source: COMTRADE

By isolating the price effects, which were very pronounced and uneven in the eighties, a picture is obtained of the development of trade in volume terms. As regards the growth of EC import demand in volume terms two distinct phases can be distinguished during the eighties. Up to 1985 extra EC-import demand contracted modestly in volume terms, while from 1985 extra EC-import demand has been expanding vigorously, in fact, faster than intra-EC trade.¹ During the latter period (up to 1989) average import growth amounted to 7.8 per cent per annum. In contrast, in the USA real

¹This is not in contradiction with the rising share of intra EC trade in total EC trade during this period. Differences in price developments explain the growing share of intra-EC trade in total trade. According to EUROSTAT intra-EC imports grew in volume terms by 30 per cent from 1985 to 1989, compared to 35 per cent for extra-EC imports.

import growth has slowed down since 1986, while it expanded rapidly in the early 1980s, causing a deterioration in that country's balance of payments position. Imports of Japan have been growing rapidly in the eighties, albeit from relatively low levels. Some details can be found in table III.7.

Table III.7

Index of Real Import Growth in the EC, the USA and Japan
(1985 = 100)

	1980	1982	1984	1986	1988	1989
Total imports						
- EC	105	94	98	106	126	135
- USA	69	68	92	111	118	n.a.
- Japan	90	89	99	110	140	151
Manufactures - EC			90	88	97	108
146						136
- USA	54	58	89	111	117	n.a.
- Japan	70	80	99	123	180	202

Source: OECD (USA and Japan estimates) and EUROSTAT (EC estimate)

Table III.7 portrays also clearly the dynamic role of manufactures in world trade growth. Volume growth of EC import demand for manufactures has consistently performed better than total import growth, another cause of the progressively growing share of manufactures in total trade. In this regard EC import demand of manufactures has been particularly beneficial to the developing countries. During the eighties import of manufactures from developing countries more than doubled in volume terms, compared to only a sixty per cent rise in total extra EC import demand for manufactures; in value terms EC imports of manufactures from developing countries were in 1989 about 2.5 times as high as in 1980.

While EC import demand of manufactures from developing countries expanded rapidly in the eighties, it should be noted that only a limited number of countries have actually taken advantage from this. This concerns in the first place the Newly Industrialising Economies in Asia (Hong Kong, Korea, Singapore and Taiwan) and, secondly the ASEAN countries. A little over half the growth in import demand of manufactures during the eighties came from the NIEs, which increased their share in total EC import demand of manufactures from developing countries to almost 50 per cent. Also the ASEAN countries saw a rapid expansion of their manufactured exports to the

Community, accounting for 23 per cent of the growth in total EC import demand for manufactures from developing countries. On the other hand the ACP countries and the Latin American countries registered only modest increases in their manufactured exports to the Community, reducing their shares in total EC imports of manufactures from developing countries to 5.5 and 10.3 per cent respectively in 1989.

III.3.2 EC Trade Policy towards Developing Countries; The Pyramid of Preferences

The European Community subscribes to the fundamental GATT principle of MFN treatment whereby GATT Contracting Parties should, in their trade policies, offer the same treatment to imports from all third countries without discrimination.. Yet, by virtue of other GATT-accepted principles such as the "enabling clause" which covers GSP schemes and Art. XXIV , the EC does grant preferential tariff treatment both to groupings of industrialized countries with whom it has free trade area agreements (namely EFTA) and to most developing countries as well.

The preferential treatment granted to LDC's reflects the Community's policy objective of giving support to the industrialization efforts in the poorer parts of the world.

Yet, the preferential treatment towards LDCs is not uniform. On the contrary, depending on historical and geo-strategic factors the treatment is "more preferential" in some cases than in others. More precisely, an hierarchy of regimes, often called a "pyramid of privileges", can be distinguished as follows:

(i) ACP countries

The Community relationship with this group of countries which includes a large number of least developed countries is the most extensive and privileged in the hierarchy. The Lomé agreement between the EC and most of the countries of Africa, the Caribbean and the Pacific (a total of 69 since Lomé IV) grants to those countries tariff preferences that virtually allow for duty-free entry of industrial exports without any quantitative limitations.

Imports of agricultural products are virtually duty free as well and, within some quantitative limits and calendar restrictions, they benefit from reductions and suspensions in their variable levies; furthermore, sugar and beef have a secured market access at favourable EC prices. Beyond the tariff and access benefits the Lomé Convention also provides extensive financial support (inter alia, to support ACP export earnings), and substantial technical assistance (through aid projects).

(ii) Mediterranean countries

Within a global framework common to all the countries of Southern Europe (Cyprus, Malta, Turkey and Yugoslavia) and the Southern (Algeria, Egypt, Morocco, Tunisia) and Eastern Mediterranean (Israel, Jordan, Lebanon, Syria) the EC has economic and commercial bilateral agreements of various kinds (cooperation, association, customs unions, etc.) with each of those countries providing for financial and technical aid¹ and granting important trade preferences for their exports to the EC.

The extent of the trade preferences varies with the countries: they tend to be less than those granted to ACP countries for agricultural products but, for most industrial products, they allow for duty-free entry subject to tariff quotas in certain cases and to agreed bilateral arrangements eg. for textiles.

(iii) The GSP beneficiary countries

By virtue of its GSP scheme, the EC grants unilaterally, i.e. without any formal agreement and without involving reciprocity, a series of generalized² duty reductions for imports originating from LDCs. The granting of these reductions is made on a year-to-year basis but within a scheme whose structure has been established until now for ten-year periods³.

To the extent that GSP concessions are, as a rule, granted to all developing countries, all LDCs are in a sense "GSP countries". However, because the preferential treatment within the GSP involves concessions that are less than those granted by the Lomé Convention and the Mediterranean agreements, the only countries that effectively make use of the GSP scheme are the non-Mediterranean Asian countries and the Latin American countries. These countries will in the following be referred to as "GSP beneficiaries" or "GSP beneficiary countries".

¹Including access to European Investment Bank loans from which the ACP and Mediterranean countries are the only non-EC countries to benefit.

²However, there are two significant exceptions to this principle: Korea and Taiwan. Korea, although formally a GSP beneficiary, has been explicitly suspended since 1988, and on a temporary basis, from enjoying the preferences of the system. On the other hand, Taiwan, because it does not belong to the UN organizations, has never been granted GSP treatment.

³The periods referred to are 1971-1980 and 1981-1990.

Most semi-manufactured (including mining) and manufactured products are eligible for GSP treatment and, as a result, their importation is duty-free for amounts not exceeding certain ceilings and in some cases quotas. However, these limitations as well as rules of origin requirements and administrative procedures tend to reduce the extent to which GSP benefits are actually received. Furthermore, since 1986 the EC has implemented a more formal approach concerning graduation and differentiation so that after countries reach a certain level of competitiveness, they are faced, on a product-by-product basis, with a gradual limitation of their preferential treatment.

With respect to textiles, GSP benefits are somewhat different from those affecting the other industrial products. Their importation also benefits from preferential treatment but within tariff quotas, some of which are allocated by Member State; furthermore, this preferential treatment is dependent upon potential beneficiary countries having concluded export-restraint agreements within the framework of the Multifibre Arrangement. The Community has indeed concluded such agreements with 27 textile supplying countries.

Outside the Lomé and Mediterranean accords, the EC also has various trade and cooperation bilateral agreements of a non-preferential character with other LDCs. While these agreements do not involve specific import concessions, they normally include measures to facilitate and promote exports from those countries to the EC. Most of these agreements are with individual countries but some of them are with groups of countries instead. More precisely, the EC has commercial and cooperation agreements with the ASEAN, the Andean Group, the Central America Common Market and some Latin American (Mexico, Brazil, Uruguay, etc.) and Asian (Bangladesh, China, India, Pakistan, Sri Lanka, Yemen, etc.) countries.

III.3.3 Effects of Trade Preferences on Trade Flows

A lot has been said about the effect of trade preferences; that these are trade creative, trade distorting, support development in poorer countries, give rise to welfare gains in the countries involved or cause misallocation of resources due to "incorrect" producer incentives not in accordance with actual market conditions. This chapter illustrates that a system of trade preferences is only one among many factors influencing the development of trade flows. And in the case of the Community, having a rather liberal overall trading regime, the impact of trade preferences will to a large extent be that of a facilitator of a certain development than that of the creator (or the hinderer) of this.

Figures III.4-7 show extra-EC imports and exports by main region and, in more detail, by developing country origin/destination. EC imports from EFTA countries (Fig III.4) have increased substantially from 17% in 1970 to 23% in 1989 in a period where EC-EFTA relations have grown stronger and the scope of trade preferences has been broadened. During the same period the

share of developing countries in EC imports has fallen from 39% to 31%, despite the substantial improvement in trade preferences offered to this group of countries (such as extension of the Lome Convention, establishment of the GSP and establishment of preferences for the Mediterranean countries). The other industrialized countries, excluding EFTA, have increased their share in EC imports slightly from 37% in 1970 to 38% in 1989, even though these countries are offered no special preferences in their trade with the EC.

Figure III.6 shows that among Developing countries it is the ACP countries and the OPEC countries which have lost ground in EC imports. The reduction of the share of ACP countries in EC imports from developing countries from 20% in 1970 to 14% in 1989 indicates that trade preferences in themselves are not sufficient to increase or even maintain trade flows, although it is very likely that the development of ACP exports would have been even worse without trade preferences.

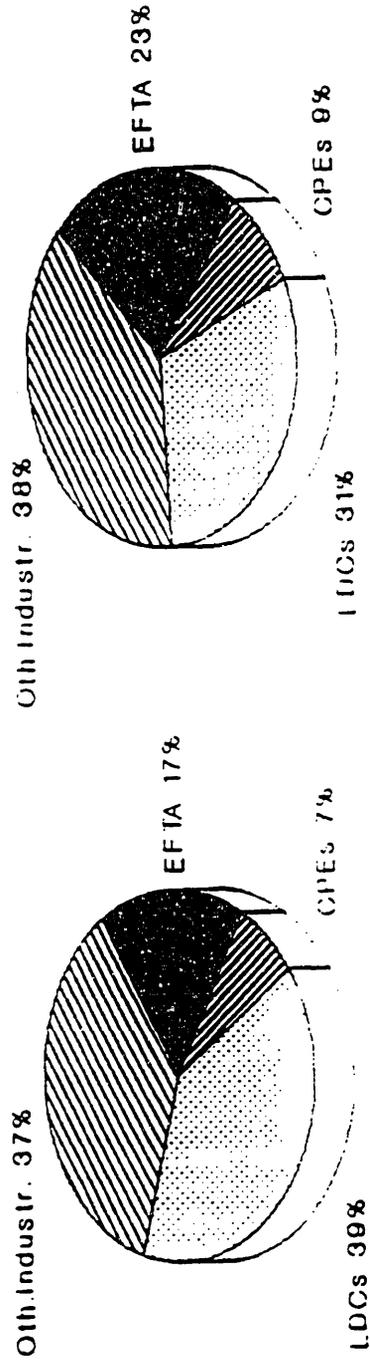
The structure of EC exports to third countries has developed quite differently from the imports (figure III.5). The share of exports going to EFTA countries has only increased slightly from 25% in 1970 to 26% in 1989, despite the fact that the preferences offered imports from the EC into EFTA countries have developed in parallel with the preferences offered the other way around. The share of EC exports to the other industrialized countries has decreased by one percentage point, while the share of Developing Countries has increased from 31% to 32% in 1989.

Analysing EC exports to main groups of developing countries (figure III.7), it can be seen that the shares of OPEC, the Mediterranean Basin and the ASEAN countries have increased considerably, while exports to the ACP countries and to Latin America have decreased. EC exports enjoy limited preferences in the Mediterranean Basin (mainly Turkey and Israel), but the increased share of OPEC and the ASEAN countries is not due to trade preferences but rather the result of changes in relative purchasing power of the two country groups coupled with high economic growth in the ASEAN countries.

The above suggests that trade preferences in themselves are not sufficient to change trade flows at the aggregate level, even if these might have a significant impact at the product level. This means that, although trade preferences might be of significant value for the individual country as regards certain products (which for some developing countries are essential for their economies), trade preferences do not seem to alter the overall pattern of trade flows in a fairly open economy.

The Generalized System of Preferences (GSP) offers a good example that trade preferences are only one factor, and probably not the most influential, in determining the development of trade flows. For 1990, 130 countries and 25 territories were eligible for GSP benefits; but while almost all Developing countries qualify, not all of these apply for and utilize those benefits - many get better access through Lome or through Mediterranean preferences. Some that do use the GSP (ASEAN) have improved their share of EC imports, while others (OPEC and Latin America) have not.

Extra-EC imports by main region (at current prices)



1970 Extra-EC: Mecu 33,733
1989 Extra-EC: Mecu 447,053

CPEs- Centrally planned economies.

Source: Eurostat

Figure III.4

Extra-EC exports by main region (at current prices)

MORE

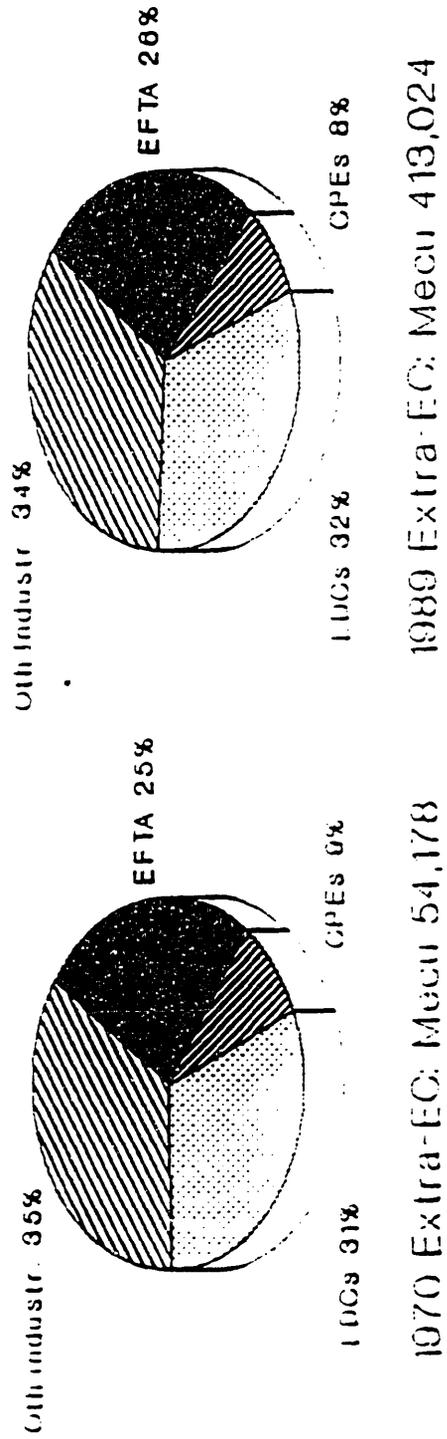
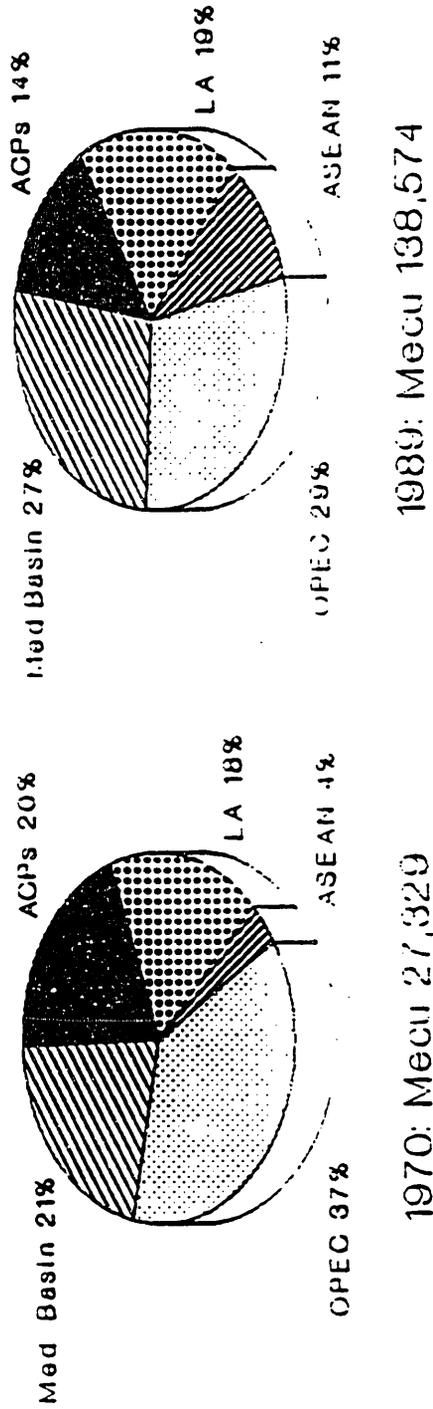


Figure III.5

Source: Eurostat.
CPEs= Centrally planned economies.

Figure III.6

EC imports from main LDC groups (current prices)

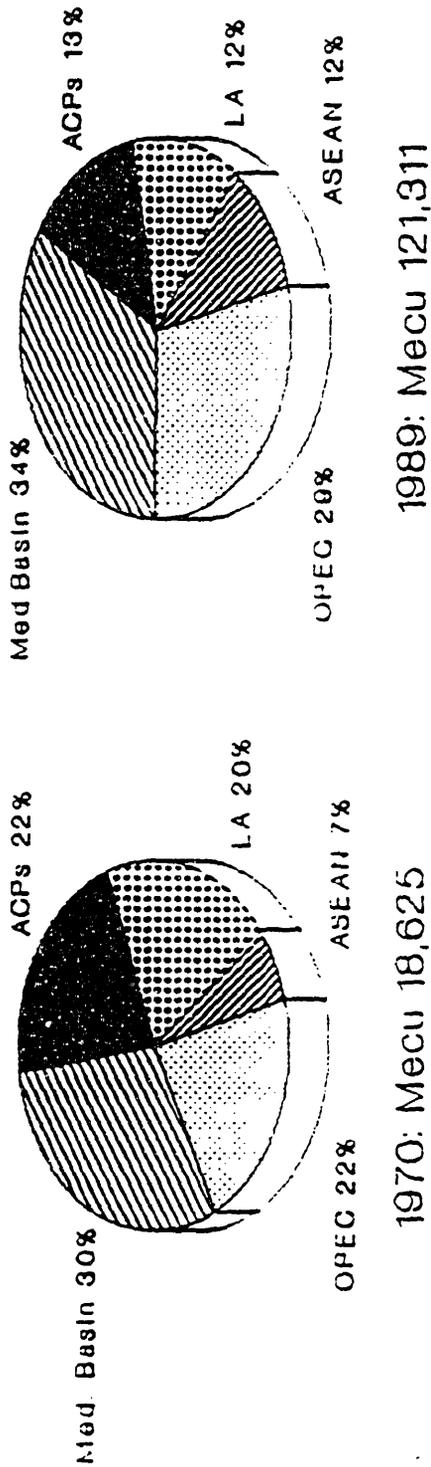


MORE

Source: Eurostat.

EC exports to main LDC groups (current prices)

Figure III.7



Source: Eurostat.

Exports from GSP beneficiaries to the EC amounted to ECUs 83 billion in 1988, equal to about one fifth of all EC imports and about 70% of total EC imports from developing countries. Table III.8 shows that the share of both developing countries in general and of GSP countries in particular fell markedly between 1981 and 1988. This is to be explained by the fall in oil prices over the decade, as many of the GSP beneficiaries are oil-exporters. When oil is excluded the share of imports from GSP beneficiaries in total EC imports have remained fairly stable around 18-20%.

Table III.8

Geographical Structure of EC Imports
(1981-1988)

	1981*	1984	1988
	- per cent -		
Industrialized countries	48	51	62
State trading countries	8	10	8
Developing countries	44	39	30
of which			
- ACP	6	7	4
- Mediterranean Basin	9	10	8
- GSP beneficiaries	34	28	21
- GSP benef. excl. fuel	18	20	18

* Figures correspond to EC(10).

Note: The sum of imports from the various developing country groupings exceed total imports from developing countries due to a certain overlap between country groupings.

Source: COM(90) 329

The composition of GSP imports has changed substantially since 1981, when fuels accounted for nearly two thirds of the imports compared to less than a quarter in 1988. In the same period the share of textiles in total imports has doubled from 7% to 14%, while the share of other industrial products has increased from 16% to 40%.

Table III.9

Composition of EC Imports from GSP Beneficiary Countries

	1981	1984	1988
	- per cent -		
Food and agriculture	11	17	20
Fuels	65	50	24
Textiles	7	9	14
Other Ind. products (incl. mining)	16	23	40
Total	100	100	100

Source: COM(90)329

These trends are further illustrated by table III.10, from which it can be seen that the expansion of trade in textiles is not just a result of the decline in oil-exports, as growth of textiles imports since 1984 exceeds that of total imports less fuels.

Table III.10

Growth of EC imports from GSP beneficiaries

	1981-83	1984-86	1986-88
	- average annual percentage growth -		
Food and agriculture	10	-5	1
Fuels	-15	-27	-12
Textiles	6	3	9
Other industrial products (incl. mining)	11	2	14
Total	-5	-13	2
- Total less fuels	11	0	8

Note: Based on values Source: COM(90) 329

Source: COM(90)329

Table III.II shows the imports from GSP beneficiaries by import regime. The rapidly declining share of duty free imports from GSP beneficiaries can be attributed to the fall in oil-prices and exchange rate movements between the ECU and the US dollar. It does therefore not represent any tightening of the EC import regime.

In the 1980s when total imports (less fuels) from GSP beneficiaries maintained a steady share in total EC imports (less fuels) , the share of imports covered by GSP more than doubled (130% increase) from around one fifth to just less than half of total imports from these countries. The share not covered by GSP increased almost equally by 126% from 6.1% to 13.8%. This indicate (i) that the reduction of fuel imports has been off-set by an increase in other exports; (ii) that export performance has not in general been dependent on whether products were covered by preferences or not. It follows from this that although trade preferences do have a substantial influence at the product level, they do not seem to alter overall trends in development of trade flows.

Table III.11

Imports from GSP beneficiaries by import régime

	1981	1984	1988
	- per cent -		
MFN zero duty	73.6	58.5	39.4
Not covered by GSP	6.1	10.7	13.8
Covered by GSP	20.3	30.8	46.7

Note: Based on values

Source: COM(90) 329

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