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**TRADE POLICY REVIEW OF THE EUROPEAN COMMUNITIES
17-18 MAY 1993**

GATT Council's Evaluation

The GATT Council conducted its second review of the European Communities under the trade policy review mechanism (TPRM) on 17-18 May 1993. The text of the Chairman's concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country's trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council's discussions and of the Chairman's summing-up, together with these two reports, will be published in Summer 1993 as the complete trade policy review of the European Communities and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, the following reviews have been completed: Argentina (1992), Australia (1989), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Canada (1990 and 1992), Chile (1991), Colombia (1990), Egypt (1992), the European Communities (1991), Finland (1992), Ghana (1992), Hong Kong (1990), Hungary (1991), Indonesia (1991), Japan (1990 and 1992), Korea, Rep. of (1992), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), the Philippines (1993), Poland (1993), Romania (1992), Singapore (1992), Sweden (1990), Switzerland (1991), Thailand (1991), the United States (1989 and 1992), and Uruguay (1992).

**Concluding Remarks by the Chairman
of the Council**

**Review of the European Communities
17-18 May 1993**

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

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

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

The Council identified five major themes for its discussion:

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

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

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

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

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

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

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

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

(ii) The Communities' external trade relations

11. Several participants viewed the Communities' trade relations as a series of concentric circles, radiating from the twelve member States through a diminishing levels of preferential treatment, with complex interactions among different preferential groupings. It was recognized that regional economic integration, if coupled with trade liberalization, contributed positively to the multilateral trading system. GATT provisions would, however, require free trade agreements to be comprehensive and to discourage the creation of trade barriers.

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

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

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

11. The EC representative said that the Europe Agreements set out a clear timetable for moving towards total liberalization of customs duties and restrictions on industrial trade between the partners and the EC in all sectors within a specified period. For agriculture, significant market opening was

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foreseen, based on major reductions in duties and the abolition of quotas on all items subject to GSP concessions; further moves would await the Uruguay Round and the process of tariffication. Proposals for acceleration of the timetables for liberalization were being made by the Commission for consideration at the June European Council in Copenhagen.

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

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

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

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

(iii) Use of major trade policy instruments

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

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

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

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

20. The EC representative replied that anti-dumping measures covered less than 0.5 per cent of EC total imports. The average number of cases resulting in definitive measures over the last decade

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was only 19 per year; and the Community's very strict interpretation of "like product" meant that the impact of any measure was limited to precise items. The duration of procedures was a result of scrupulous adherence to rules of procedures, and the need to respect fully the rights of all interested parties.

21. The use of VRAs had fallen markedly, with the Single Market process and structural adjustment.

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

(iv) Sectoral issues

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

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

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

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

27. Community policy concerning subsidies in sectors such as steel, shipbuilding or coal mining was to introduce greater discipline on assistance granted by member States. Regional funds were not product-related or sectoral in nature.

28. Referring to the textiles sector, he said that spectacular progress had been made by some developing countries in the last ten years or so. In agreements concluded under the MFA since 1986, 25 per cent of previous quantitative restrictions had been abolished and wider flexibility was provided, while EC tariffs for textiles and clothing were among the lowest worldwide. The conclusion of the Uruguay Round negotiation would be most beneficial to all countries involved.

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(v) The European Communities and the multilateral trading system

29. The effect of EC enlargement on access to new members could not be prejudged.

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

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

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

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

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

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

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