

The European Community in the world

European File

Foreign trade accounts for an average 24% of the gross domestic product of the ten countries in the European Communities. In the United Kingdom it stands at 24%, but it reaches as much as 57% in Ireland. For France and Greece, at the other end of the scale, foreign trade is lower in the rest of the Ten, but still accounts for 18% of national GDP. These figures point to the fact that foreign trade has a considerable impact on consumer habits in the EEC (shops with more international goods), on industry (Europe must import most of its raw materials), on the economy (we export less than we import) and directly affects our jobs and standard of living.¹

The Ten's foreign trade is largely dealt with as a joint Community matter, though each country tries, of course, to get the best out of its own trade.

- But 50% of trade is between Common Market countries and is not subject to customs duties or quantitative restrictions.

- The remaining 50%, which is trade with the rest of the world, is subject to a customs tariff barrier which is common to all countries as an obligatory part of the internal customs union. External trade is a Community matter: the Community has the power to negotiate international trade rules; fix customs procedures, import restrictions and quotas; ensure protection — within the framework of international rules — against

¹ This file updates and replaces File No 7/80.

unfair foreign competition, etc. Trade agreements with third countries are negotiated by the European Commission and submitted to the European Parliament before being approved by the Ten's ministers.

The Community has consequently emerged on the world scene as an entity in its own right, one of the largest trading partners and one whose scope increasingly extends beyond just trade questions. In reality it is difficult to isolate world trade — where, excluding internal trade, the Community has a 22% share compared to 15% for the USA and 9% for Japan — from the whole question of international relations where the influence of 270 million Europeans carries much more weight than that of countries acting on their own. Today:

- more than 100 countries have diplomatic relations with the Community as a body. The Community has observer status in the United Nations and also in some of its specialized organizations where the Ten often take up a common position. The Community participates in the Western 'summits' alongside the United States, Japan and certain Member States; it participates or has participated as a negotiator at numerous international conferences on trade (GATT), development (UNCTAD, UNIDO, North-South Dialogue) or on East-West cooperation in Europe;
- the Community conducts a dialogue with its industrialized partners dealing with trade as well as economic questions, research, environment, etc. It contributes to the development of the Third World through its own aid programmes and also by bringing about the coordination of Member State policies and by encouraging them to speak with one single voice in the context of the North-South or Euro-Arab Dialogues;
- Community countries retain full sovereignty over foreign policy matters but they have agreed to consult each other in the framework of continuous political cooperation, and they coordinate their attitudes on specific issues such as the Palestinian problem, relations with South Africa, Afghanistan, etc.

The development of the Community's external relations is of mutual interest to all Europeans:

- it helps guarantee our commercial and economic future and reduce tension in the world. Firstly, by a very clear stance in favour of trade liberalization wherever possible, a choice which is essential if we wish to preserve the current standard of living in a Community which imports about 90% of its raw materials. Also by the accent put on Third World development, which helps assure new outlets for our industry whilst diminishing the risk of conflict which could result from the continuance of current inequalities. European aid to the Third World is, moreover, better received by the beneficiaries when it does not have political strings attached;
- it gives our countries greater weight in a world dominated by continental superpowers. For example, the Community has been able to obtain agreements from external trading partners to moderate their steel and textile exports. It reached agreement with

the USA and Japan on the introduction of an oil imports ceiling up until 1985, by which time the price rises should have eased off somewhat. Right now it could even offer its Member States the possibility of negotiating jointly more effectively with countries exporting raw materials.

General and sectoral policies

- In general terms, the liberal nature of the common trade policy can be seen:
 - in the industrial field: the average Community customs tariff, which is one of the lowest in the world, should fall from 9% to 7.5% by 1988 as a result of the Tokyo Round negotiations conducted between 1973 and 1979 within the framework of GATT (General Agreement on Tariffs and Trade). Other reciprocal duty reductions were negotiated previously in the Kennedy Round (1963-67) and the Dillon Round (1960-61);
 - in the agriculture field: the preference guaranteed to European products does not stop the Community being one of the major importers. It buys 27% of world food exports and — in contrast to the USA — has a trading deficit which reached 9 billion ECU¹ in 1980;
 - in the area of Third World relations: generalized preferences permit all Third World countries to export finished and semi-finished goods to the Community without paying customs duties (quantitative restrictions are, however, applied to the most sensitive products). Tariff reductions have also been agreed for numerous agricultural products and special agreements facilitate the export of craft products from some twenty countries.
- To encourage the development of the Third World, the Community has concluded agreements with a large number of countries which will be discussed in detail later on. It has accorded 'non-associated' countries in Asia and Latin America financial and technical aid (150 million ECU in 1981) and it is developing a general food aid programme for cereals (928 000 tonnes in 1981), for milk powder (150 000 tonnes) and butter oil (45 000 tonnes) to a total value exceeding 600 million ECU. The Community also contributes in the framework of the North-South Dialogue and the United Nations to the search for a new international economic order which would accelerate the development of all Third World countries and also contribute to the recovery of the economies of industrialized countries (the Third World takes 37% of European exports, mostly capital goods and finished products) though the rate of export growth has remained relatively slow.
- The Community has also negotiated numerous agreements which are not of an exclusively commercial nature;

¹ 1 ECU (European Currency Unit) = about UKL 0.56 or IRL 0.69 (at exchange rates current on 8 December 1981).

- in the crisis stricken textile sector a large number of low-wage countries from all continents agreed in the framework of an international agreement to moderate the growth of certain exports to the Community between 1978 and 1982. The provisions are currently being renegotiated;
- in the steel sector, which is also in difficulty, the fourteen principal countries which export to the Community have been able to maintain their traditional trade on condition that they adhere to certain pricing conditions;
- in the fisheries sector, the Community has negotiated agreements on fishing rights within the new national 200 mile limits with some ten third countries: European, American and African, bordering on the Baltic and the Atlantic;
- in addition, numerous scientific research programmes are jointly carried out by the Community and ten neighbouring countries. Cooperation agreements for the peaceful use of nuclear energy link the Community on the one hand, and the United States, Canada, Argentina and Brazil on the other. Information exchanges in the environmental field have been organized with Sweden, Norway, Switzerland, Austria, Canada, the United States and Japan. Several agreements have been made with Switzerland, Austria and Yugoslavia in the transport sector.

Relations with other West European countries

- *Countries in the European Free Trade Association (EFTA)*: in 1973, following the entry into the Community of Ireland and two member countries of EFTA, Denmark and the UK, the Community formed a free trade zone with EFTA countries (Portugal, Switzerland, Austria, Sweden, Norway, Iceland and Finland) embracing 300 million consumers. Customs duties and restrictions on industrial trade were abolished and certain reciprocal concessions agreed in the agriculture sector. In addition, special arrangements were made for Iceland, given its large fish exports. Portugal¹ – the least developed of its members should soon be joining the Community; it has been accorded, since the restoration of democracy, financial aid (grants, European Investment Bank loans) worth 655 million ECU. Trade between EFTA and the Community represents 21% of Community trade (more than the US share) and between 36% and 59% of EFTA countries' trade. Cooperation between the trading partners is also developing in the areas of research, environment, fisheries, steel and transport.
- *Mediterranean countries*: the Community has concluded association agreements with, Turkey, Cyprus and Malta which could gradually lead to accession or to customs union. A preferential trade agreement has also been made with Spain,¹ which, like Portugal, should soon be joining the Community. The majority of industrial exports from these countries already enter the Community without incurring customs duties or quantitative restrictions, and concessions have been agreed for numerous agricul-

¹ On this subject see *European File* No 5/79: 'The Enlargement of the European Community'.

Community¹ trade in 1980

	Nine's imports			Nine's exports		
	Million ECU	As % of foreign trade	1980 index (if 1958 = 100)	Million ECU	As % of foreign trade	1980 index (if 1958 = 100)
<i>Other W. European countries</i>	62 656	23.1	1 488	75 664	33.7	1 368
<i>Eastern Europe</i>	19 621	7.2	1 911	16 375	7.3	1 854
<i>Other developed countries</i>	71 445	26.3	946	43 314	19.3	765
of which: USA	44 250	16.3	1 120	26 564	11.8	1 013
Japan	12 462	4.6	5 171	4 569	2.0	2 308
<i>Developing countries</i>	114 562	42.2	1 075	83 388	37.2	883
of which: OPEC	67 218	24.8	1 751	36 618	16.3	1 392
<i>Total extra-Community trade</i>	271 552	100.0	1 148	224 446	100.0	1 016

¹ The Community of Nine before the accession of Greece on the 1 January 1981.

Source: Eurostat.

tural products. The speed of tariff reductions for Community products is somewhat slower given the difficulties faced by the insufficiently developed economies of these countries. In the same spirit, the Community has extended its cooperation effort into numerous areas and accorded grants as well as loans from the European Investment Bank totalling 310 million ECU for Turkey between 1976 and 1981, 26 million for Malta and 30 million for Cyprus between 1979 and 1983. In 1980 an extensive cooperation agreement was also concluded with Yugoslavia which covers tariff-free imports and Community loans totalling 200 million ECU over five years.

Relations with East European countries

In 1974, the Community proposed to each of the State-trading countries the opening up of trade negotiations. There was no response to the offer except in the case of Romania which in 1980 signed an agreement setting up a mixed committee with the Community charged with discussing trade questions. Romania also benefits from generalized preferences and has concluded with the Community a non-preferential agreement on trade in industrial goods. Apart from this, periodic meetings are held between Community and Comecon (the East bloc economic grouping) representatives to try to establish a working relationship, but progress is very slow. Comecon does not have the same power in the trade field as the Community and its members still refuse to fully recognize the Community. Traditional trade flows are maintained by the Community and it regularly re-examines the quotes which it has had to fix unilaterally for imports from the East. A number of limited agreements have been passed concerning trade in the agricultural, textile and steel sectors. Export credits and cooperation agreements concluded individually by the Ten are subject to concentration at the Community level.

Relations with other developed countries

The Community has particularly extensive relations with the USA, Japan, Australia and New Zealand. High-level consultations are frequently held between these trading partners. Special mention should be made of Canada with which the Community concluded an outline agreement in 1976 for economic and commercial cooperation. This is a non-preferential agreement but one which introduces cooperation mechanisms in the field of industrial trade, science and natural resources.

- *USA and Japan:* the total Community trade deficit with these countries amounted to 25 billion ECU in 1980. During the recent Tokyo Round negotiations, the Community was able to achieve the elimination of certain trade barriers. The Community has also launched a programme to promote its exports to Japan — a country which buys three times fewer European goods than it sells to us. The European Commission is also recommending the Ten to adopt joint industrial programmes in several sectors, including data processing, which will enable our industries to recapture a larger share of the market.
- *Australia and New Zealand:* agricultural trade between the Community, Australia and, above all, New Zealand, presents a problem to those countries which traditionally supply the British market with meat, particularly mutton and lamb, as well as dairy products for which the Community has a surplus. The Community has agreed to waive partially the principle of Community preference by accepting certain quantities of meat as well as a quantity of New Zealand butter. In addition, Australia has been able to find partial compensation for its reduced agricultural exports to the Ten by expanding exports of minerals and energy products.

Relations with developing countries

In terms of public aid, as in trade, the Community is the main economic partner of the Third World countries. Outside of its general action to encourage development (already mentioned above) it has formed particularly close relationships with a number of Third World countries or groups of countries:

- *Southern Mediterranean and Near East:* eight countries (Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon and Syria) signed commercial, industrial, technical and financial cooperation agreements with the Community in 1976 and 1977 covering, in particular, free access to the Community market for their industrial products, customs preferences for some of their agricultural produce, financial aid (grants, loans from the European Investment Bank) which should reach a total of 1 015 million ECU between 1981 and 1986. In addition, the Euro-Arab Dialogue was started in June 1975 on themes such as technology transfer, investment encouragement, trade cooperation, agricultural development, labour problems, cultural exchanges. Three major problems for the Community are: its growing trade deficit with the oil exporting countries (31 billion ECU in 1980, or close to two-thirds of the Community's total deficit); following the entry of Greece, Spain and Portugal, the

necessity to maintain as far as possible the trade advantages enjoyed by the other Mediterranean partners; the Community's relations with other Near East countries in the new international context;

- *Africa, Caribbean and Pacific*: some sixty ACP countries have concluded the Lomé Convention, signed in 1975 and renewed in 1979, which removes customs duties without reciprocal obligations for 99.5% of their exports to the Community. The Ten have also accorded them financial and technical aid worth 5.7 billion ECU for 1980-84 and it introduced a quite original system to stabilize export earnings. When the ACP countries' earnings from exports to the Community fall below the average for the four preceding years, the Community compensates the loss of income by advances which only the least poor countries are required to repay. In 1979, a mechanism along the same lines was developed to guarantee ACP countries their mineral production or export potential and it was decided to considerably strengthen cooperation in the areas of energy, industry and agriculture;¹
- *Asia*: between 1974 and 1976 the Community concluded non-preferential cooperation agreements with the countries of the Indian sub-continent: Bangladesh, India, Pakistan and Sri Lanka. In addition, the Community accords Indian sugar exports, preferential treatment similar to those given to ACP countries; the generalized preferences given to the Third World have been extended to certain exports which are vital for Bangladesh (jute), India (jute and cocoa products) and Sri Lanka (cocoa products). The Community's Asian policy has particularly developed in recent times. In 1978, a trade agreement was signed with China. In 1980, an economic and commercial cooperation agreement was signed with the countries of the Association of South-East Asian countries (ASEAN: Indonesia, Malaysia, Philippines, Singapore and Thailand), which are rapidly growing markets. In 1981, the accord with India was extended to economic cooperation.
- *Latin America*: economic and commercial cooperation agreements were concluded with Mexico in 1975 and with Brazil in 1980. A non-preferential trade agreement was also signed with Uruguay in 1974. In addition, the Community has taken various measures to encourage exports and economic integration in this continent and it envisages the conclusion of a cooperation agreement with the countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela). A regular dialogue at ambassador level brings together representatives of the Ten and of Latin American countries.



The main principles of the Community's foreign policy are the maintenance of free trade and the development of the Third World. It wishes to represent the general interests of Europeans who are confronted with a troubled world in which the Community — if given the appropriate means — can provide Europe with a more powerful voice than that of its individual Member States ■

¹ For further details see *European File* No 6/81: 'Community Aid to the Third World: the Lomé Convention'.



The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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