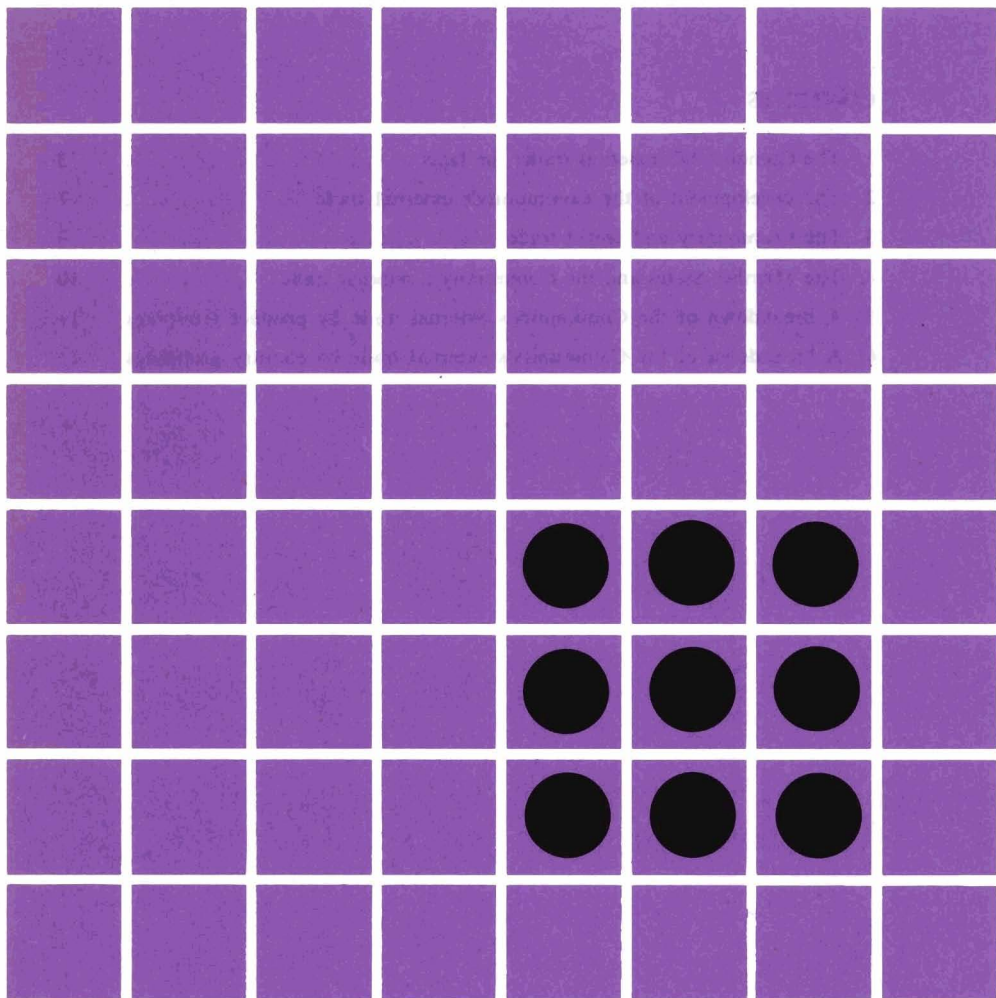


The European Community's external trade (1958-1974)



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The European Community's external trade (1958-1974)

1. The Community's external trade: the facts

External trade is of considerable importance to the European Community. Member States' exports account for 24 per cent of the Community's gross domestic product, compared with figures of 7 per cent for the United States and 12 per cent for Japan. The Community imports 60 per cent of its energy supplies and accounts for 44 per cent of the world's agricultural imports. Together, the EEC Member States are responsible for approximately 22 per cent of world trade and exert a considerable influence on the world economy. In these circumstances, the elaboration of a common external trading policy touches upon interests which are vital, both economically and politically, to the Community's trading partners.

If a common trading policy is important at world level, however, it is equally important at Community level, for there is a high degree of interdependence between such a policy and other policies as in the monetary, energy, transport and agricultural sectors—all of which are basic to European integration.

The 1957 Treaty establishing the European Economic Community (EEC) recognised the need for the Community to form a single unit in the field of external trade. In addition to the progressive establishment of the customs union with a common external tariff for the six founding States (Belgium, Germany, France, Italy, Luxembourg and the Netherlands), the Treaty laid down that after a transitional period, the Community's trading policy was to be based upon common principles. The major step in this direction came on 1 July 1968 when an EEC customs union including a Common External Tariff (CET) became fully operational. Since its establishment, the European Community has pursued a liberal customs policy. It accepted a non-arithmetical solution for the fixing of common external tariff rates in the context of the GATT¹

¹ GATT = General Agreement on Tariffs and Trade.

negotiations (in accordance with Article XXIV: 6), and it reduced its duties by 7-8 per cent in the Dillon Round (1960-1962) and by 35-40 per cent on average in the Kennedy Round negotiations (1964-1967). At 6 per cent, its average rate of duty is lower than that of most other industrialised countries. The United Kingdom, Ireland and Denmark joined the European Community in 1973, at which time transitional arrangements for their full incorporation into the customs union came into operation.

The liberal basis of the Community's customs policy is reflected not only in its low average rate of duty, but also in a number of other measures. On 1 July 1971, the Community introduced a system which allowed duty-free access to its markets for finished and semi-finished goods from the developing countries. It has also established a number of free trade areas for industrial products, for example with Madagascar and eighteen African States under the two Yaoundé Conventions (covering the periods 1965-1969 and 1969-1975), and with the three East African States under the Arusha Agreement (covering the period 1969-1975). These agreements were superseded in 1975 by the Lomé Convention, a new model for trade and economic cooperation between the Community and 46 African, Caribbean and Pacific (ACP) countries.

The Community also has free trade agreements with the EFTA² countries (Austria, Norway, Portugal, Sweden, Switzerland as well as Iceland and Finland) as a result of which by 1 July 1977 much of Western Europe will become a single industrial free trade area.

The Community is in the process of developing an overall preferential Mediterranean policy incorporating the existing association agreements with Greece and Turkey and preferential agreements with a number of other Mediterranean countries. Negotiations with several Mediterranean countries for the creation of more far-reaching free trade or preferential areas have in some cases already been completed and in others are either taking place or about to do so.

The Community's common commercial policy came into force on 1 January 1970, and applies to all countries except the state-trading ones which are covered by a separate arrangement dating from 1 January 1973. In keeping with its overall customs policy, the Community approach to quantitative restrictions is extremely liberal. Apart from a small number of tariff headings, exports have been completely liberalised and quantitative restrictions on imports are applied only in a small number of isolated cases, covering sensitive products such as textiles. Of approximately 1,200 tariff headings, only 50 or so are still subject to quantitative restrictions vis-à-vis GATT member countries, although

² EFTA = European Free Trade Association.

liberalisation of trade with the state-trading countries is not yet so far advanced.

In the agricultural sector, the Community, in common with most industrialised countries, operates a support system designed to promote domestic agricultural production and guarantee farm incomes. The Community system is based on import levies, equivalent to sliding import duties, which ensure that internal agricultural prices are not undercut by imports. In the case of exports, refunds may be granted to make up the difference between higher internal and lower world market prices, thus ensuring that Community agricultural products are competitive on world markets.

Despite the protective nature of its support system, the Community is still the largest importer of agricultural products in the world, accounting for 44 per cent of total world imports in 1973.

Contractual agreements between the Community and non-member countries play a vital role in the Community's external trade policy. In addition to the free trade, preferential and association agreements already mentioned, the Community has also concluded non-preferential trade agreements with several countries and there is a growing tendency for such trade agreements to include measures for economic cooperation in certain areas, thus providing a further stimulus to trade.

The Community's general aim in the sphere of external trade (as defined in Article 110 of the EEC Treaty) is to contribute to the harmonious development of world trade³. The liberal application of the range of trade policy measures introduced to this end increased the volume of external trade in the Community of Six by 514 per cent between 1958 and 1974.

Since all data for 1975 were not available at the time of going to press, the majority of statistics in this paper cover the period up to the end of 1974⁴.

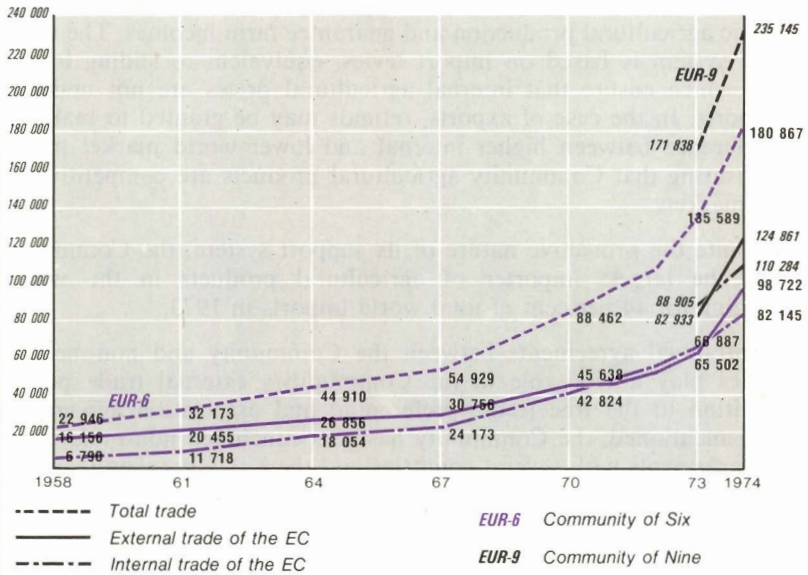
³ Article 110 reads as follows: "By establishing a customs union between themselves, Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers.

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."

⁴ Sources: Statistical Office of the European Communities and Statistical Yearbook of the United Nations.

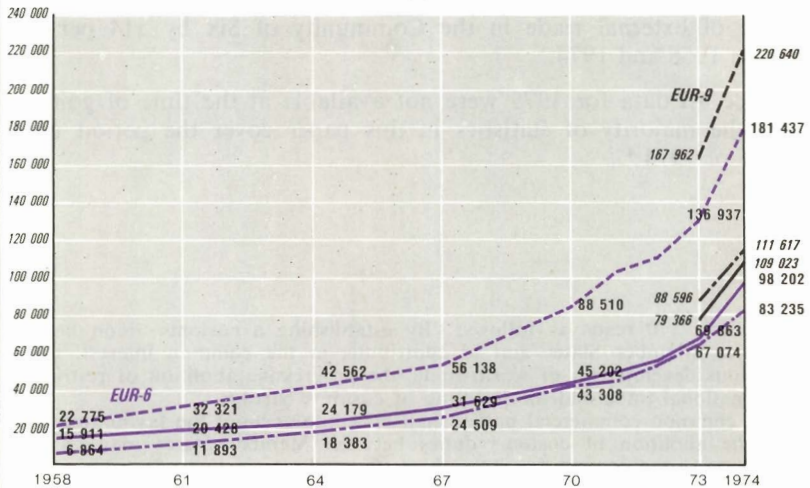
DEVELOPMENT OF THE COMMUNITY'S IMPORTS

million u.a.



DEVELOPMENT OF THE COMMUNITY'S EXPORTS

million u.a.



2. The development of the Community's external trade

Examination of the Community of Six's trade figures (internal and external) reveals a steady growth in both imports and exports. Even in 1967, when there was a fall-off in economic growth, the Community's external trade continued to increase, with imports rising by 2 per cent and exports by 7 per cent. In the period 1959 to 1967, the average annual rate of growth of the Community's overall trade was around 10 per cent. Between 1968 and 1972, the growth rate was 14 per cent, in 1973 it climbed to over 25 per cent and in 1974, topped 35 per cent. In 1974, imports reached a value of 180,900 million u.a.⁵, compared with 22,900 million u.a. in 1958, and exports totalled 181,400 million u.a. as against 22,800 million u.a. in 1958.

The removal of intra-Community customs barriers led to strengthened trade links between the EEC Member States themselves and internal trade came to represent a greater proportion of the Community's total trade. Between 1958 and 1974, the proportion of total imports represented by intra-Community imports increased from 30 per cent to 45 per cent, and the proportion of total exports accounted for by intra-Community exports increased from 30 per cent to 46 per cent.

The removal of customs barriers within the Community had a particularly favourable impact on countries such as France and Italy which originally maintained a high degree of trade protection and between 1958 and 1974, the share of these countries in the Community's internal trade increased considerably.

The extraordinary increase in internal trade cannot, however, justify the frequently-voiced assertion that the Common Market has deflected trade from non-member countries. Although trade with non-member countries represents only a little over 55 per cent of the Community's total trade (in 1958, the proportion was 70 per cent), the increase in imports from non-member countries was not only above average (in terms of world imports), but also remarkably steady.

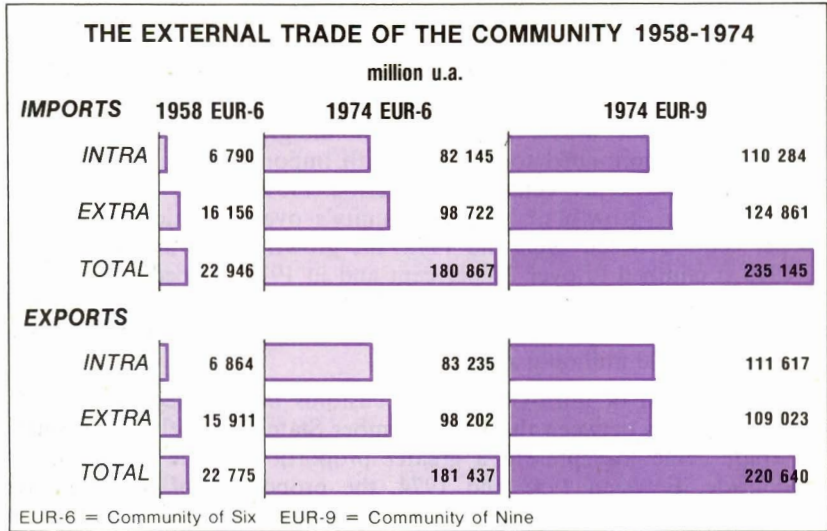
By 1958, the year the Common Market was established, the Community of Six was already the world's largest importer, with imports worth 16,200 million u.a. representing 16.6 per cent of world imports (excluding trade between the state-trading countries and the Community's internal trade). By 1974, imports into the Community of Nine

⁵ 1973-1974: 1 u.a. or Eur = US \$1.25 = £0.534.

1972: 1 u.a. = \$1.08571.

Prior to 1972: 1 u.a. = \$1.

In any comparison of the data for different years, the effects of inflation must be remembered. Although world trade was 37 per cent higher in 1973 than in 1972, in value the quantitative increase was only 13 per cent.



had reached a value of 124,900 million u.a., representing 23.8 per cent of total world imports.

In the export field, the Community of Six exported goods worth 15,900 million u.a. in 1958, representing 17.3 per cent of the world total, and making it the world's second biggest exporter after the United States. By 1974, the Community of Nine was exporting goods to the value of 109,000 million u.a., bringing its share of total world exports up to 20.6 per cent. The Community had become the world's biggest exporter.

3. The Community and world trade

With 23.8 per cent of world imports and 20.6 per cent of world exports, the Community is the world's largest trading unit. During the period 1958-1974, the rate of growth in the Community's external trade was higher than the general rate of growth in world trade, but other major industrialised countries experienced an even greater growth rate. The overall increase in the Community of Six's imports from non-member countries was 511 per cent over this period, while Japan recorded an increase of 1,538 per cent, the United States 548 per cent and the USSR 357 per cent. The Community's exports to non-member countries during this period showed an overall increase of 517 per cent, compared with increases in Japan of 1,444 per cent, in the USSR of 410 per cent and in the United States of 337 per cent.

THE WORLD'S MAJOR IMPORTERS AND EXPORTERS (SITUATION IN 1958 AND 1974)

Values: million u.a. % of world trade **

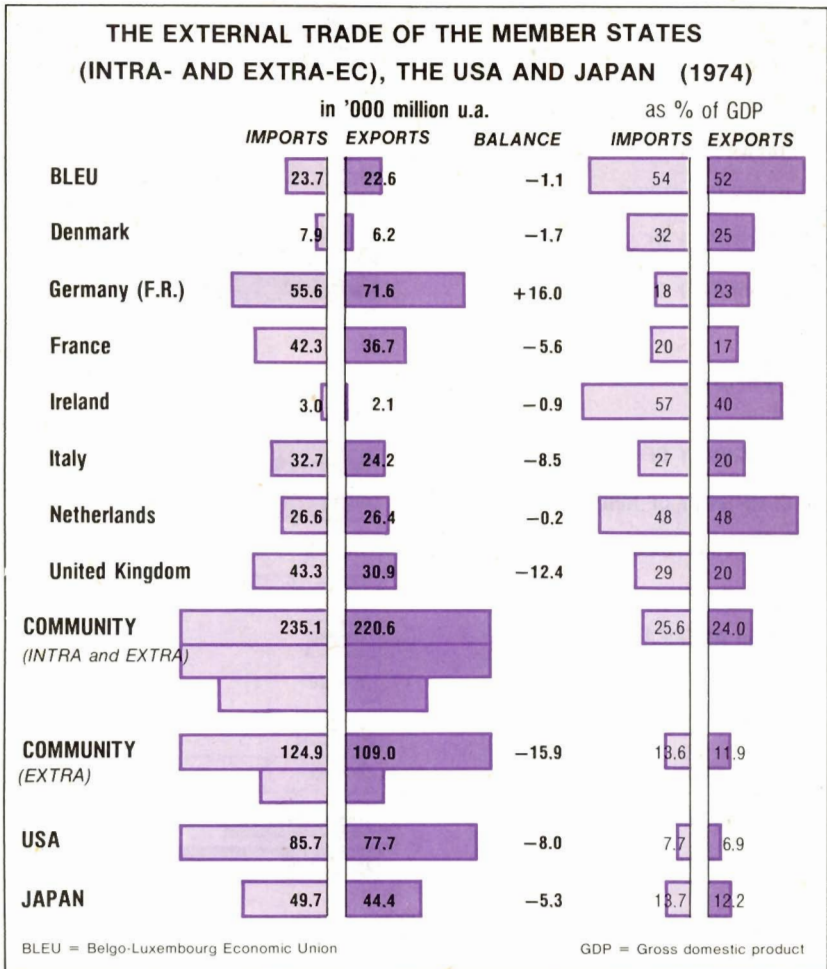
		1958		1974	
		Value	%	Value	%
EXTRA	COMMUNITY OF SIX	16 156	16.6	98 722	18.8
	COMMUNITY OF NINE			124 861	23.8
	EFTA COUNTRIES	18 784*	19.2	48 266	9.2
	USA	13 208	13.6	85 688	16.4
	LATIN AMERICA	8 510	8.7	41 432	7.9
	USSR	4 350	4.5	19 912	3.8
	JAPAN	3 033	3.1	49 688	9.5
	OTHER COUNTRIES	33 500	34.3	153 941	29.4
	INTRA	COMMUNITY OF SIX	6 790	6.9	82 145
COMMUNITY OF NINE				110 284	21.5
		1958		1974	
		Value	%	Value	%
EXTRA	COMMUNITY OF SIX	15 911	17.3	98 202	18.5
	COMMUNITY OF NINE			109 023	20.6
	EFTA COUNTRIES	16 128*	17.6	39 488	7.5
	USA	17 751	19.3	77 715	14.7
	LATIN AMERICA	8 190	9.0	38 888	7.3
	USSR	4 298	4.7	21 920	4.1
	JAPAN	2 877	3.1	44 428	8.4
	OTHER COUNTRIES	26 584	29.0	197 961	37.4
	INTRA	COMMUNITY OF SIX	6 864	7.5	83 235
COMMUNITY OF NINE				111 617	21.1

* 1958: Denmark, Ireland and the United Kingdom included

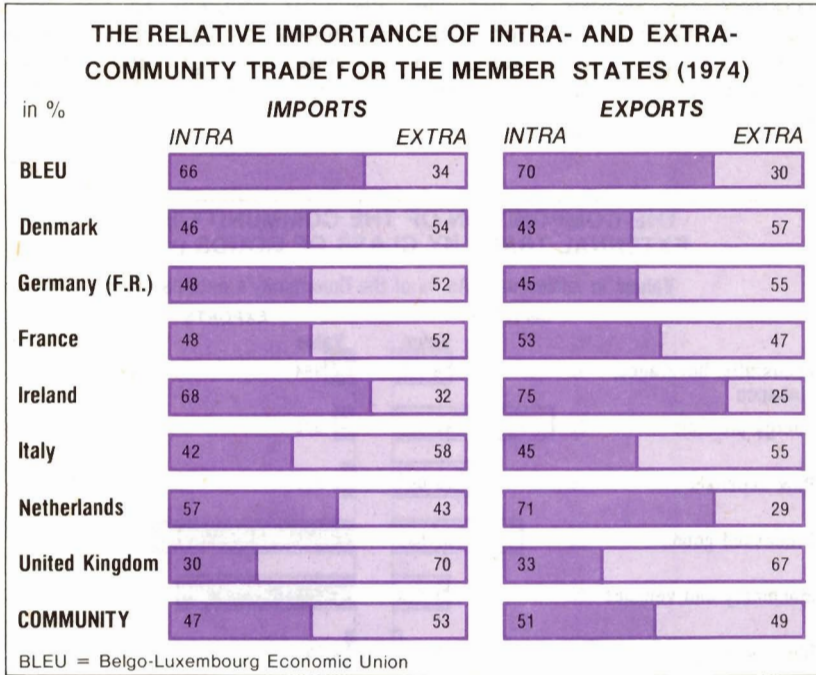
** Excluding the Community's internal trade and the trade of the state-trading countries (but including the USSR)

4. The Member States and the Community's external trade

In 1974, imports by EEC Member States (intra- and extra-EEC) accounted for almost 26 per cent of the Community's gross domestic product, while exports accounted for 24 per cent. The proportion of GDP represented by external trade was particularly high in the smaller Member States.



Examination of the trade links between Member States reveals a disproportionately high degree of dependence in the case of the smaller countries (Belgium/Luxembourg, Ireland and the Netherlands), although in the case of Denmark, intra-Community dependence is offset by trade with the other Scandinavian countries.



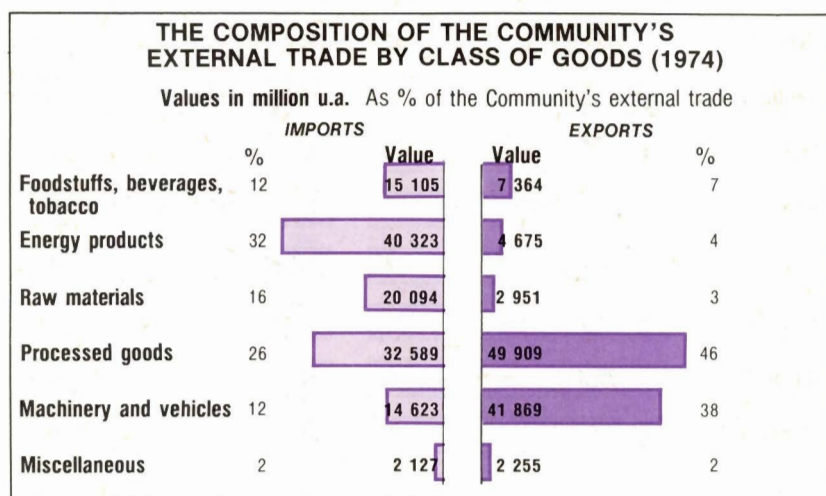
5. A breakdown of the Community's external trade by product groupings

The European Community is not rich in raw materials. In 1974, 60 per cent of its imports were raw materials and unprocessed goods while only 38 per cent were processed goods. Of exports to non-member countries, 84 per cent were processed and 14 per cent unprocessed goods.

In the same year, the biggest item on the Community's import bill was mineral fuels, which accounted for 32 per cent of the total. This was followed by classified processed goods with 16 per cent, raw materials with 16 per cent, machinery and vehicles with 12 per cent,

foodstuffs with 11 per cent, miscellaneous processed goods with 6 per cent, chemical products with 4 per cent, beverages and tobacco with 1 per cent and oils and fats with 1 per cent. Miscellaneous transactions accounted for another 2 per cent.

Machinery and vehicles dominated Community exports in 1974 and accounted for 38 per cent of the total. Classified processed goods accounted for another 24 per cent, chemical products 13 per cent, miscellaneous processed goods 8 per cent, foodstuffs 5 per cent, mineral fuels 4 per cent, raw materials 3 per cent, beverages and tobacco 1 per cent and miscellaneous items 2 per cent.



All the Member States had a trading deficit in unprocessed goods in 1974, amounting to a total Community deficit of 60,500 million u.a. There was, however, an overall Community trading surplus of 44,600 million u.a. in processed goods, and Ireland and Denmark were the only Member States with deficits in this field. The biggest trading deficits recorded by the Community in 1974 were for mineral fuels (35,600 million u.a.), raw materials (17,100 million u.a.) and foodstuffs (8,100 million u.a.). These figures were partly compensated however by surpluses in machinery and vehicles (27,200 million u.a.), chemical products (9,100 million u.a.), classified processed goods (6,700 million u.a.) and other miscellaneous processed goods (1,400 million u.a.).

6. The breakdown of the Community's external trade by country groupings

In 1974, the industrialised countries occupied second place as suppliers of Community imports, with a share representing 46 per cent of the total and worth 57,000 million u.a. In return, they took as much as 58 per cent of Community exports, at a value of 63,500 million u.a.—figures which reflect the complementary nature of trade between highly developed countries, involving mainly high-value industrial goods.

In the same year, the Community imported goods worth 58,600 million u.a. (47 per cent of total) from the developing countries and exported goods worth 33,600 million u.a. (31 per cent of total) to those countries.

The state-trading countries accounted for 7 per cent of Community imports with goods worth 8,500 million u.a., and 10 per cent of Community exports with goods worth 10,400 million u.a.

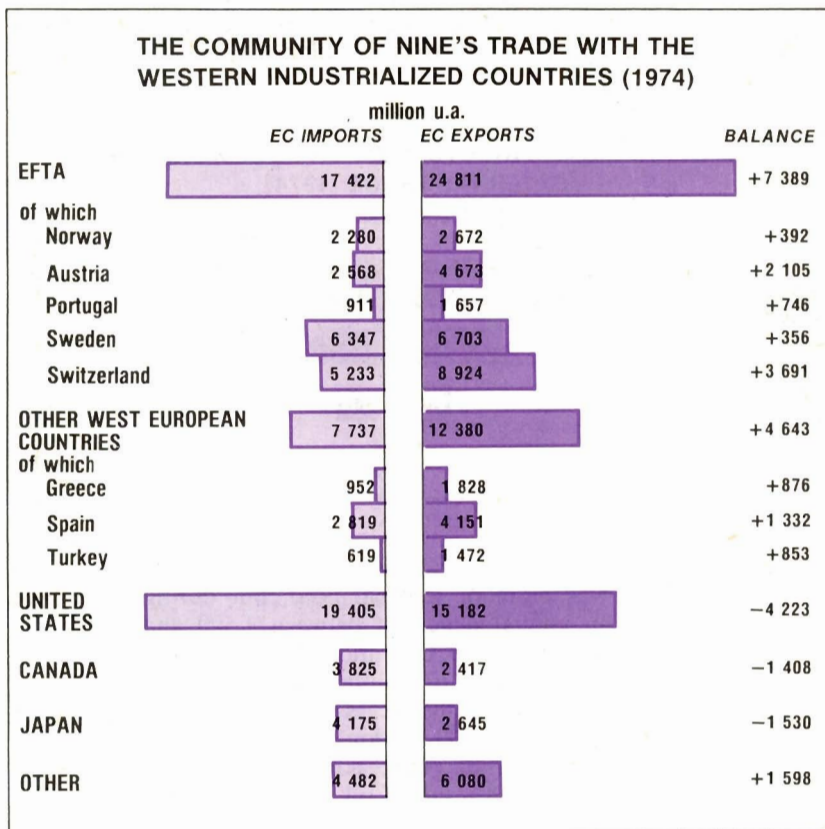
GEOGRAPHICAL STRUCTURE OF THE COMMUNITY'S EXTERNAL TRADE (1974)						
Values in million u.a. As % of the Community's external trade						
	IMPORTS		EXPORTS		BALANCE	
	%	Value	Value	%		
INDUSTRIALIZED COUNTRIES	46	57 046	63 515	58	+6 469	
DEVELOPING COUNTRIES	47	58 606	33 599	31	-25 007	
STATE-TRADING COUNTRIES	7	8 479	10 442	10	+1 962	
OTHER	1	729	1 468	1	+739	

Between 1958 and 1961, the Community of Six's trade with non-member countries was more or less balanced, but during the period 1962-1966, it had an annual deficit of between 1,500 and 3,000 million u.a. In 1967 and 1968, the Community of Six recorded trading surpluses of 800 million and 1,700 million u.a. respectively. After a further period of equilibrium, the years 1973 and 1974 again saw surpluses of 4,500 million and 600 million u.a. respectively. The trading balance for the Community of Nine, however, showed a deficit of 15,800 million u.a., partly as a result of oil price increase in the autumn of 1973.

(a) Industrialised countries

EFTA

After the accession to the European Community of the United Kingdom, Ireland and Denmark, the European Free Trade Association (EFTA), founded in 1960, was reduced to seven countries. These seven (Austria, Finland, Iceland, Norway, Portugal, Sweden and Switzerland) already enjoyed numerous trading links with the Community. In 1974, 23 per cent of the Community's exports went to the EFTA countries who in turn supplied 14 per cent of the Community's imports. The Community has consistently recorded a surplus in its trade with the EFTA countries (1974 = 7,000 million u.a.), causing a number of them problems with their own overall trade balances.



Bilateral agreements between the enlarged Community and the EFTA countries, signed in 1972 and 1973, provide (with certain exceptions) for the establishment of a free-trade area in industrial products by 1 July 1977, to be achieved through annual 20 per cent reductions in customs duties between the two trading blocs. Each of the agreements contains an evolutive clause whereby it can be extended to cover other fields.

USA

The European Community's biggest trading partner is the United States and trade between the two has increased rapidly. The Six's imports from the USA in 1958 were worth 2,808 million u.a. but by 1974, increased to 14,014 million u.a., whilst the Nine's US imports in that year represented 19,405 million u.a. In 1958, the Six's exports to the United States amounted to 1,644 million u.a. and in 1974, had risen to 11,320 million u.a. (15,182 million u.a. for the Nine). The Community's trading balance with the United States is, however, in a state of chronic deficit, averaging approximately 1,600 million u.a. per annum.

There are two basic factors responsible for the expansion of trade with the USA: firstly, a high economic growth rate on both sides, with the consequent effects on demand produced by rapidly rising standards of living, and secondly, the Community's liberal customs policy. These two factors have made the Community an attractive market for American consumer goods and plant machinery.

A high degree of economic interdependence has caused problems in a number of areas, but these have not hindered trade expansion. Whilst the United States accuses the Community of being protectionist in the agricultural sector, one can point in return to the USA's own support system for agriculture and to the fact that not only is the Community the most important outlet for American agricultural products, but also that the USA's agricultural exports to the Community have increased more than its exports to the rest of the world.

Other subjects covered in trade discussions between the two sides are mainly the consequences of domestic policies. If a return to protectionism is to be avoided, there are controversial issues to be settled, but with the right action, a minimum of control and harmonisation should be possible on both sides.

Japan

Trade between the Community and Japan represents only a small proportion of the two parties' total trade—2 per cent for the Community and 6 per cent for Japan. Nevertheless, the development of trading

relations between Japan and the Community has been remarkable. For more than 20 years, Japan's international trade has grown twice as fast as that of the world as a whole. In 1958, the Community imported goods from Japan worth 117 million u.a., and by 1974, this figure had risen to 4,175 million u.a. Community exports to Japan were worth 139 million u.a. in 1958 and 2,645 million u.a. in 1974. Until 1968, the Community recorded small but regular surpluses in its trade with Japan, but since then, there has been a steadily increasing deficit, which raises the problem of how great the Community's absorptive capacity is, particularly as regards a number of "sensitive" products, and of how far it can afford to expose some of its own industries to the extremely sharp competition from Japan.

(b) Developing countries

Agreements of association, preferential trade agreements and the introduction of a generalised scheme of preferences (GSP) for semi-finished and finished goods have played an important role in the Community's trading relations with the developing countries.

Lomé

The Community has built up particularly close relations in the past with the eighteen Associated African States and Madagascar (AASM), the three Associated East African States and the Mediterranean countries. Association with the AASM was provided for in the EEC Treaty and took concrete form in the first and second Yaoundé Conventions (covering the periods 1963-1969 and 1969-1975 respectively). In addition to institutional arrangements and provision for technical and financial cooperation, nineteen free trade areas were established, with certain restrictions, between the Community and the States in question. Under these free trade arrangements, the Associated States remained free to maintain or introduce customs duties or charges having an equivalent effect required to meet their development needs, or intended to contribute to their budgets. Similar trade arrangements were adopted with the three East African States in the Arusha Agreement covering the period 1970-1975.

The Yaoundé Convention and the Arusha Agreement have been replaced by the Lomé Convention signed on 28 February 1975, the trade provisions of which entered into force on 1 July 1975. The Lomé Convention was initially concluded for five years, but is intended to be of unlimited duration. The Community's partners in the Convention number 46 ACP countries, comprising all the independent States of Black Africa, seven Caribbean States and three Pacific States, with a

THE COMMUNITY'S TRADE WITH THE DEVELOPING COUNTRIES (1974)

million u.a

	<i>EC IMPORTS</i>	<i>EC EXPORTS</i>	<i>BALANCE</i>
ASSOCIATED OVERSEAS COUNTRIES	6 131	5 323	-748
of which AASM	3 606	2 317	-1 289
OTHER AFRICAN COUNTRIES	12 518	7 294	-5 224
CENTRAL AND SOUTH AMERICA	7 099	7 481	+382
WESTERN ASIA	26 685	7 825	-18 860
OTHER COUNTRIES	6 173	5 616	-557

total population of 268 million. In addition to the nineteen States which had previously signed the Yaoundé Convention, the signatories include 21 Commonwealth countries (including the three signatories of the Arusha Agreement) as well as a further six African States. The Lomé Convention, based on the principle of complete equality of all parties, represents a new model for relations between industrialised and developing countries.

Trade arrangements under the Lomé Convention are based on free access to the Common Market for ACP products. This rule applies to 84 per cent of agricultural exports, with special arrangements for sugar covering an additional 12 per cent. Preferential arrangements have been made for the remaining 4 per cent. The Community has waived any reference to reciprocity in return for this free access, the ACP States undertaking to grant the Community treatment "no less favourable" than most-favoured-nation treatment and not to discriminate between Member States. As regards rules of origin, the Community recognises the principle of cumulative origin by considering the ACP countries as one territory. There is also provision for mutual consultations and measures to promote trade.

The stabilisation of export earnings constitutes an important innovation with the objective to guarantee a degree of stability of earnings, irrespective of fluctuations in prices or production. The system covers twelve commodities and their sub-groups. In the event of a drop in earnings, the Commission can grant the ACP State concerned a transfer out of a special fund totalling 375 million u.a., for the duration of

the Convention. In theory, such grants are repayable, but obligations to do so may be waived in the case of States facing particularly serious problems.

Annexed to the Lomé Convention is a Protocol on sugar in which the Community undertakes to import an annual quantity of 1.4 million metric tons of sugar at a price made up of the minimum price guaranteed by the Community to its producers plus an additional amount negotiated annually on the basis of prevailing economic factors. The ACP States undertake for their part to supply the quantities in question.

Under the financial and technical cooperation section of the Convention, the total resources of the new European Development Fund (EDF) have been increased to 2,625 million u.a. (compared with 838 million u.a. for the third Fund). An additional 30 million u.a. are available in the form of loans from the European Investment Bank's own resources and 375 million u.a. has been earmarked for a "Stabilisation Fund". The same section of the Lomé Convention also contains measures including increased responsibility for the ACP States in the preparation and appraisal of projects and the administration of aid, intensification of regional cooperation, promotion of small and medium-sized firms, etc.

In the field of industrial cooperation, the Convention aims to promote and diversify the ACP States' industry and to promote research and technology adapted to their specific requirements.

Mediterranean countries

The Community is linked to the Mediterranean countries by a network of preferential and non-preferential trade agreements and agreements of association. Currently in force with Greece and Turkey are association agreements intended to lead to full membership at a later stage (Greece has recently applied to join the Community); there are association agreements with Tunisia, Morocco, Malta and Cyprus; preferential trade agreements with Spain, Egypt, the Lebanon, Israel and Portugal (free-trade area); and a non-preferential trade agreement with Yugoslavia. The Community hopes to bring all these agreements under a single overall policy and has therefore agreed to extend its overall Mediterranean policy to cover all Mediterranean countries (plus Jordan) which have expressed a desire for special relations with the Community, or which do so in the future.

The Community has opened negotiations with a number of countries to give free access to Community markets for industrial goods originating in the countries in question. New agreements have already been concluded with Israel, Malta, Algeria, Morocco and Tunisia. Other negotiations, involving Portugal and the Mashreq countries (Egypt,

Jordan, Lebanon and Syria), are still in progress. A number of concessions have been proposed in relation to certain agricultural goods of particular importance to the countries in question and since the future partners attach particular importance to cooperation, it is hoped that agreements will contain a basis for close cooperation in all fields of interest to the parties involved.

Generalised preferences

The Community's generalised system of preferences (GSP) for semi-finished and finished goods from the developing countries has been in force since 1 July 1971, and in that time has gained considerable importance. There are 104 countries currently enjoying preferential treatment.

Beneficiary countries under the Community GSP are not obliged to grant reciprocal tariff concessions. Preferences are granted to all developing countries without discrimination but are not negotiated. They represent an independent offer geared to the needs of the beneficiary countries.

The Community GSP involves the granting of duty-free access for imports up to a specified volume or ceiling, calculated annually. For sensitive products there is a system of tariff quotas, and the proportion of the ceilings and quotas each beneficiary country can use is limited to a maximum percentage value. To prevent preferences being abused, exporting countries are obliged to issue certificates of origin. Maximum limits for ceilings and tariff quotas were 340 million u.a. in 1971, 780 million u.a. in 1972, 900 million u.a. in 1973, 2,000 million u.a. in 1974 and 2,300 million u.a. in 1975 (from 1974, the preferences were also applied by the three new Member States). At the present time, the system covers a total of 187 processed agricultural products.

(c) State-trading countries

To date, the state-trading countries have accounted for less than 10 per cent of the Community's total exports and less than 7 per cent of total imports, although Community trade with these countries has developed more rapidly than with the rest of the world. Community imports rose from 785 million u.a. in 1958 to 6,565 million u.a. in 1973, while, over the same period, exports rose from 929 millions u.a. to 9,217 million u.a. (for the Community of Six). The Community's balance of trade with the state-trading countries has always been in the black.

There are two main obstacles to the expansion of trade between the Community and the state-trading countries: the structure of the latter's export trade and the problem of financing their imports from

**THE COMMUNITY'S TRADE WITH
THE STATE-TRADING COUNTRIES (1974)**

million u.a.	EC IMPORTS	EC EXPORTS	BALANCE
USSR	3 415	3 188	-227
OTHER EAST EUROPEAN COUNTRIES	4 304	6 273	+1 969
OTHER STATE-TRADING COUNTRIES*	760	980	+220

* People's Republic of China, North Vietnam, Mongolian People's Republic, North Korea

the Community. While the Community's exports to the state-trading countries consists mainly of plant and equipment (over 80 per cent), only about 36 per cent of the Community's imports from those countries involve finished products. The Eastern European countries' exports contain a smaller proportion of value added, resulting in less favourable terms of trade. Energy price rises during the last two years, however, have put countries like the USSR and Poland in a fairly good position.

The state-trading countries face difficulties in the field of financing since, with the exception of the USSR, they have no gold reserves and balance of payments trends are unfavourable to them. The Eastern European countries have been trying to expand their trade with the Community for a number of years now through cooperation agreements. These bilateral agreements between Member States and the state-trading countries touch upon areas over which the Community has varying degrees of jurisdiction and are therefore subject to consultation procedures at Community level.

The European Community's common external trading policy vis-à-vis the state-trading countries came into force on 1 January 1973 and the bilateral trading agreements previously concluded with the Community Member States, excepting those with Denmark and the United Kingdom, all expired at the end of 1974. Trade arrangements have since been extended on an autonomous basis.

In 1974, the Community offered to negotiate trade agreements with the state-trading countries. At the beginning of 1976, the Chairman of the Executive Committee of Comecon (the Council for Mutual Economic Assistance of the Eastern countries) proposed, in turn, the opening of negotiations.

Until then, only China, which established official relations with the Community in September 1975, had indicated its willingness to conclude a trade agreement with the Community.

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