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TRADE POLICY REVIEW MECHANISM

THE EUROPEAN COMMUNITIES

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policy Review Mechanism (BISD 36S/403), the initial full report by the European Communities for the review by the Council is attached.

NOTE TO DELEGATIONS

Until further notice, this document is subject to a press embargo.

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INTRODUCTION

As this introduction is being written, it is two years almost to the day since the first Community review. It is a time for reflection, for taking stock: both in retrospect and in prospect.

In April 1991 the Iron Curtain was already lifted, the Berlin Wall dismantled. Since then we have seen the disintegration of Yugoslavia and of the former USSR, and the wider European landscape has been altered beyond recognition. The membership of the CSCE has increased by one-third, with the advent of new republics and states. NATO has lost almost all its original raison d'être and has had to work out a new role in a different world.

Yet, the centrifugal forces born out of historical experience and atavistic instincts are matched by equal movements in the other direction. The single market, the EEA, applications for EC enlargement and efforts to create the European Union are examples; NAFTA and MERCOSUR in the Americas, and APEC and ASEAN in the Asia-Pacific region, are others.

Faced with this diversity and change one can only turn to constant values: the need to buttress and develop the multilateral trading system, with its essential principles and to conclude successfully the Uruguay Round "au plus vite". It is for these reasons that the Community has consistently opposed unilateral measures and approaches outside GATT; and has urged the multilateral avenue especially in the search for fair conditions of competition in international trade and in the solution of trade disputes.

Nevertheless even the best of objectives on their own are not enough. As a leading international economist said recently:

> "It's easy enough to write the beautiful language of economic commentaries. What's hard is the implementation."

1993 will be a crucial test whether implementation can be secured.

The European Community remains as dependent for its economic growth and its prosperity on a sound, open and expanding trade system as it was two years ago. As a major trade player, we are determined that new trade liberalisation should indeed be achieved.

Much of the analysis of the Community's trade policy system, especially in section I of the Community's first report in April 1991, is equally valid today and needs no repetition. What follows therefore does not attempt to repeat the basic story; this report simply brings the story up to date and reinforces the same message.

EXECUTIVE SUMMARY

A

This is the second Trade Policy Review report presented by the EEC Commission on behalf of the European Community. In the two years or so since the first report (April 1991), the main developments terms of new actions in the field of external relations and trade can be briefly summarized as follows, following chronological order.

First, at the end of 1991 the Community reached agreement in the Maastricht treaty on the terms of its own further development with important new commitments in the monetary field, with major trade implications in the longer term, and intensified cooperation in foreign and security policy. The ratification process is under way in all Member States.

Second, in the course of 1992, a new agreement to establish a European Economic Area and to intensify regional economic integration was signed with EFTA countries; and agreements were also signed with Poland, Hungary and Czechoslovakia with the aim of establishing progressively full freedom of movement of goods and services, of capital and of people. The trade provisions in these agreements, which foresee setting up free trade areas within ten years, have entered into force pending ratification.

Similar agreements have more recently been signed with Rumania and Bulgaria, and the necessary amendments as regards the new Czech and Slovak republics are being negotiated. Further, the Community's future trade relationship with the Baltic states, with the Russian Federation and with the other newly independent states of the former USSR, are being actively discussed or negotiated.

Third, at the end of 1992, the transition period towards a full single market in the Community ended and a new era with total free movement of goods and services, and of capital and people, was introduced from 1st January 1993. (Some final decisions e.g. on remaining national restrictions, full implementation of certain Directives and on procedures for border checks on the movements of people are still to be taken).

B

These developments, and the economic context in which they have taken place, are examined in the first part of the report, Section I. Although the EC has developed a growing trade deficit after 1987, it remains one of the most open of all major economies if measured by the percentage of GDP contributed by trade in goods and services. On this basis the EC (with a fairly consistent 25 to 27 per cent of its GDP derived from such trade through the last 15 years) is more open than the USA (whose figure was less than 15 per cent in the early 1970s, rising to just above 20 per cent in 1980 and still at this level a decade later) or Japan (whose figure was around the EC level in the late 1970s and early 1980s but sharply declining since then and only around the US level of 20 per cent today) : see graph A.

If openness is measured only in relation to imports of goods a share of GDP (and making due allowance for energy imports which can be a major distorting factor), the EC has a higher % figure than either of its major partners, significantly more than Japan : see graph B. [On a measure of exports of goods to GDP, the EC would be second to Japan but still higher than the USA figure.]

During the 1980s extra-EC imports in total increased by almost 65 per cent in value terms; import growth from certain countries was especially rapid eg. imports from Turkey and China more than quadrupled, from Taiwan they tripled, and from Japan they more than doubled. On the other hand these countries proved also to be dynamic markets for Community exports; these rose sharply (in some cases from a smaller base) to Korea (up more than 5 times), Taiwan (4.5 times), Japan (more than 3.5 times) and Turkey (3 times), compared with an overall growth rate of EC exports of 94 percent during the eighties.

Among the top ten exporters to the EC market there are those that have benefitted from regional economic integration (five individual EFTA cuntries) as well as other major trade partners such as USA, Japan, Canada and the PRC (China). (The tenth major supplier in 1990 was the former Soviet Union). A precisely similar pattern exists as regards the major markets for EC exports.

The EC market is often vital for the exports for its partners; no less than 75 % of the total exports of the five CEECs, for example, came to the European Community and about half of this trade was already free of duties and of any restrictions in 1991. This is a measure of the contribution that the Community has made, and will continue to make, towards the economic and political reforms being pursued in those countries, in addition of course to its major programme of technical assistance within the G.24 framework.

C

Section II of the report presents a detailed picture of the elements of the Single Market programme which have the greatest impact on trade. In general this confirms a picture of market opening and of expanding opportunities for third countries. The simple fact that a producer will be able to seek access in one go to the whole Community market (thanks to the principle of mutual recognition, single licensing and greater harmonisation) rather than having to seek multiple authorisations is of major benefit to traders whether in the EC or from third countries. With the dissappearance of internal borders, goods do indeed already circulate freely.

This section covers such issues as the elimination of remaining national restrictions and developments in important sectors such as public procurement, standards and certification, pharmaceuticals and public health, trade in services and telecommunications; and demonstrates the very positive impact of these changes on external trade opportunities.

As in 1991, Section II also presents a picture of the trade developments in the Community in important sectors and in terms of the more important types of trade measures. The aim is to present the situation from the Community's point of view, thus providing a point of direct comparison with the analysis and comments in the GATT Secretariat's own report.

Thus sectors such as agriculture (with decisions on reform of the CAP), textiles, automobiles, steel and civil aircraft are covered in detail; and Community activities in the field of customs tariffs, origin rules, safeguard measures and anti-dumping measures are analysed and discussed.

D

Section III places all these developments in the broader context of international trends (lower economic growth, strong trends towards regional integration and towards globalisation of industries) and traces the effects on the Community's flows of imports and exports. For example, preferential trade flows have always been an important feature in the EC's foreign trade, especially with EFTA countries and with developing countries (both under GSP and with Mediterranean and ACP partners). More recently, following their inclusion in the GSP system and later under the Europe agreements, the Central and East European countries have also become new and growing preferential trade partners. Nevertheless, one might note the fact that less than 30 percent of EC imports actually benefit effectively from access on a preferential basis (due to the wide availability of MFN duty-free entry in the EC tariff and in some cases, due to non-utilisation of GSP).

The structure of EC trade is compared with that of the USA and Japan; and trade patterns with developing countries are analysed.

Finally, as in 1991, some major external constraints on the growth of EC exports in major markets are mentioned, in order to demonstrate that the basic approach of reciprocal opening of all markets (which is a major Community aim in the Uruguay Round) is still highly relevant and opportune if a successful and balanced outcome is to be achieved.

SECTION I

COMMERCIAL POLICY - BACKGROUND AND PROSPECTS

CHAPTER I.1 ECONOMIC BACKGROUND

I.1.1. Economic indicators

1. Five years (1986-90) of average real GDP growth in excess of 3% gave way to a sharp, mainly cyclical slowdown in economic activity in the Community. The essential features of the Community's economic situation during 1991-92 can be summarized as i) slow growth; ii) a fall in employment and a worrying upward movement in the numbers of unemployed; iii) small but insufficient progress in terms of inflation; iv) a continuing deterioration in general government net borrowing and v) an increased current account deficit. Prospects for 1993 are gloomy as the already disappointing situation is in danger of deteriorating further.

1991-92: two years of accelerating slowdown

2. During the last two years, the Community's economy has experienced, like all major industrial countries, a deeper and longer-than-expected slowdown of economic activity. The cooling-off of the Community economy, which commenced around mid-1990, was due mainly to the adverse economic environment. Cyclical factors, reinforced by the negative effects of the Gulf crisis and, for some countries, the collapse of the former Soviet Union, pushed into recession the United States and Canada as well as a number of Community and EFTA countries. In addition, the far-reaching transformation occurring in Central and Eastern Europe led to a collapse in output in these countries. As a result, after peaking in 1988 at around 4%, the growth of world output excluding the EC slowed continuously and was near zero in 1991 (see Table 1). The growth in the volume of world trade (again excluding the EC) decelerated even more from a rate in excess of 7% in 1988 to about 2 1/2% in 1991.

3. Initially, the Community withstood these adverse developments in the world economy rather well. The fundamental improvement in the functioning of the Community economy which took place during the 1980s, but particularly the strong growth stimuli emanating from the process of German unification, ensured the continuation of growth, albeit at a much reduced rate. Indeed, the rate of output growth in the Community dropped to 1.4% in 1991 from the 2.8% recorded in 1990. With its growth impact on the other Community countries estimated at about half a percentage point of GDP on average in 1991, German unification indeed prevented a bigger dent in the Community's growth performance.

4. At the time (spring 1991), expectations were for a mild and short-lived downturn only. It was thought that under the impact of "classic" cyclical forces a gradual recovery was imminent. However, events did not turn out as predicted. Since the second half of 1991 the downturn has gathered significant force. This was only temporarily interrupted in the first quarter of 1992, when exceptional factors generated an unexpected buoyancy in economic activity. On average, output growth in the Community in 1992 is now estimated to have been a scant 1%, down by almost half a percentage point on the already disappointing outturn for 1991.

5. With hindsight, several factors explain the protracted phase of weak economic activity in the Community. The chief factor was the fact that buoyant growth in the period 1987-89 entailed strong inflationary pressures and ended in an important cyclical downturn which has been reinforced by the effects of an unbalanced policy-mix following German unification. Unfortunately, inflationary pressures, thanks also to the Gulf crisis, proved stronger than expected, wage increases accelerated and insufficient progress was made towards budgetary consolidation in the boom period. As a result, monetary policy (in the EC countries) continued to be tight despite increasing signs of growing weakness in the Community economy.

6. In addition, economic growth in the other OECD countries, where asset price deflation and balance sheet adjustment were, and still are, significant, was weaker than expected. Consequently, Community exporters not only faced less dynamic export markets, but they had also met strong competition from these countries. The appreciation of European currencies relative to the dollar during the second and third quarter of 1992 further eroded the competitive position of Community exporters.

7. Finally, the economic performance of the Community has been worsened by the appearance of significant uncertainties regarding the ratification of the Treaty of European Union and the reduced credibility of the commitment of Member States to carry out the agreed adjustments as a result of both the doubts on the Treaty ratification and the deterioration of the economic situation. This is reflected in the recent foreign exchange turbulence which has seriously called into question the convergence process, progress towards EMU and the effectiveness of policy coordination. As a result, private-sector confidence has substantially deteriorated, which is the most worrying aspect of the present economic situation.

Table 1: European Community[1]: main economic indicators

Annual real percentage change, unless otherwise stated

	Average 1986-89	1990	1991	1992*	1993**
Private consumption	3.8	3.2	1.9	1.43	0.7
Government consumption	2.0	2.1	2.0	1.5	0.8
Gross fixed capital formation	6.4	3.9	0.0	-0.3	-1.0
Domestic demand (incl. stocks)	4.1	2.8	1.2	1.1	0.3
Exports of goods and services[2]	1.1	5.6	5.5	3.7	5.1
Total demand	3.8	3.1	1.7	1.4	0.9
Imports of goods and services[2]	7.9	5.4	3.8	3.7	2.4
GDP	3.3	2.8	1.4	1.1	0.7
Price deflator private consumption	4.0	4.5	5.3	4.5	4.4
Employment	1.2	1.6	0.1	-0.5	-0.8
Unemployment[3]	9.9	8.3	8.8	9.5	10.6
Net borrowing gen. govt. (% of GDP)[4]	3.8	4.1	4.6	5.3	5.7
Current account balance (% of GDP)[4]	0.3	-0.3	-1.0	-0.8	-0.9
Exchange rate: number of USD per ECU	1.10	1.27	1.24	1.30	1.18
Nominal effective exchange rate[5] (% p.a)	2.9	11.5	-3.3	2.4	-6.0
World GDP (excluding EC)	3.9	2.0	0.5	1.6	2.3
World imports (excluding EC)	5.9	3.8	2.6	5.3	5.7

* Estimates
** Forecasts, January 1993

(1) EC excluding the five new Länder, unless otherwise stated.
(2) Extra-Community trade only.
(3) As a percentage of the civilian labour force.
(4) Including the five new Länder from 1991 onwards.
(5) Relative to 19 industrial partners.

Source : Commission

Rapid rise in unemployment from already unacceptably high level is major cause for concern

8. The persistent and gathering slowdown in economic growth in the Community has been accompanied by a pronounced worsening of existing labour market difficulties. After coming to a virtual halt in 1991, employment growth in the Community was negative in 1992 - for the first time since the early 1980s -, a 1/2% fall being registered. These figures compare with the substantial progress achieved during 1987-1990, when employment grew at an annual rate of 1.5%. The dismal rates of job creation and the continued strong increases in the civilian labour force have resulted in a steady and worrisome rise in the rate of unemployment in the Community since mid-1990. Having reached a low of 8.3% in 1990, the rate of unemployment increased to 8.8% in 1991 and climbed further to an estimated 9.5% in 1992.

Unsatisfactory degree of nominal convergence

9. The Treaty on European Union requires significant progress in the downward convergence to low levels of both inflation rates and budget deficits in order to ensure a smooth transition to the final stage of Economic and Monetary Union (EMU). It should be stressed that even independently of the Maastricht exigencies, convergence efforts would be indispensable to bring about non-inflationary, sustained and employment-creating growth. To attain a swift, sufficient and durable degree of nominal convergence, Member States decided to submit convergence programmes, specially tailored to the main convergence difficulties in terms of inflation and budget deficits. At the Edinburgh Summit of 11-12 December 1992, Member States reiterated their determination to fulfil the convergence criteria as enshrined in the Maastricht Treaty and to comply fully with the submitted convergence programmes.

10. However, over the last two years progress towards improved nominal convergence suffered a setback. Average inflation (measured by the private consumption deflator) in the Community rose to 5.3% in 1991 against 4.5% in 1990. Although it fell to 4 1/2 in 1992, it is unsatisfactory in terms of the Community objective of price stability. Moreover, in view of the tight stance of monetary policy, the depressed state of the domestic economy and low and even negative import prices, more pronounced progress was reasonably expected. On a more positive note, marked progress has been made in reducing divergences in inflation performances amongst Member countries. While this was largely the result of a decline in inflation rates in the more divergent countries, in part it was also due to a deterioration in 1991 in the inflation performance in the original narrow-band ERM member countries, particularly Germany. The situation with regard to budgetary positions was even more disappointing. The period 1991-92 saw a significant deterioration in budget deficits in the Community. Basically under the adverse impact of slow output growth, but also partly due to budgetary slippages, in the Community as a whole net borrowing of general government increased by 1/2 a percentage point in 1991 to 4.6% of GDP and by almost another point in 1992 to 5 1/4%. Over the period concerned the United Kingdom and Germany in particular witnessed a sharp worsening in their budgetary positions.

Outlook for 1993: continued weakness with recessionary risks

11. Given recent trends in economic indicators, the policies being implemented and the forces at work in the Community economy, the short-term outlook is for continued very slow growth. The Commission's most recent forecasts (January 1993) suggest an average rate of real GDP growth for the year 1993 of only 0.7%. Under these circumstances, the rate of unemployment is bound to increase further and may approach 11% of the civilian labour force at the end of 1993, thereby exceeding its peak level of mid-1985. Budgetary positions would deteriorate further to a deficit of 5 3/4% of GDP, which is twice the low level reached in 1989 and higher than the peak registered in the early 1980s. Inflation on the other hand is expected to improve only marginally as the exchange rate movements of the second half of 1992 are likely to entail a sharp rise in import prices.

12. A better performance could be achieved if the endogenous recovery mechanism could be ignited. This may result from a more favourable external environment, brought about for instance by a recovery in the United States and/or policy action within the Community.

13. Unfortunately, the balance of risks is clearly on the down side so that the Community may face stagnation of output or even a recession. Indeed, there are many factors that could further negatively affect confidence, thereby depressing further consumption and investment expenditure. Gloomy output and employment prospects could prevent a reversal of the current morose confidence levels in the short term. Furthermore, the persistence of large budget deficits and/or continued wage pressures could prevent any significant relaxation of monetary policy.

The Community's initiative to enhance employment, competitiveness and growth

14. In view of the rapidly deteriorating short-term outlook for growth and employment/unemployment, which risks inflicting serious damage on the Community integration objectives, Member States agreed at the Edinburgh Council of 11-12 December 1992 to launch an initiative to promote economic recovery in Europe. In its Declaration, the European Council stressed that in the present circumstances the main priority for economic policy is to restore confidence and credibility, thereby reviving growth and employment prospects in the Community. An essential feature of the initiative is the confirmation by the Member States of their commitment to the successful medium-term strategy (i.e. pursuing the medium-term goals of price stability and budgetary consolidation), followed in the Community since the beginning of the 1980s.

15. The initiative constitutes a two-pronged approach involving joint action at the national level and additional specific measures to be carried out at the Community level. At national level, the European Council urged Member States to take the following actions:

- create the conditions for a reduction in interest rates, particularly through reinforcing medium-term efforts to consolidate public finances and through a moderation of wage increases;

- exploit, according to their national circumstances and without endangering the medium-term goal of sound budgetary positions, the limited margins for manoeuvre available as concerns budgetary policy;

- switch, to the extent possible, their public expenditure towards those sectors influencing growth conditions most, i.e. infrastructure, training and education, etc.;

- implement measures to encourage private investment, especially by small and medium-sized enterprises;

- press ahead with structural adjustment efforts.

16. These national efforts are to be topped up by complementary and supportive action at Community level consisting, inter alia, of the following elements:

- accelerated and determined implementation of the internal market programme in order to bring about a better functioning of the Community economy;

- the creation of a new European Investment Fund (EIF), endowed with a capital of ECU 2 billion, to provide guarantees for investment projects;

- the establishment of a new, temporary lending facility of ECU 5 billion within the EIB, the purpose of which would be to accelerate the financing of capital infrastructure projects, notably those related to Trans-European networks.

17. In total, the new EIB facility and the EIF could support investments worth ECU 30 billion over the next few years. This initiative is being implemented by the ECOFIN Council and was set out in detail in the Commission's Annual Economic Report.

1.1.2. Trade relations between the Community and third countries

Imports

18. A large share of the Community's merchandise trade is accounted for by developed countries, both as an export market and a source of import supply (see table 1). On the import side, the share of developed countries in Community imports has been greatly affected by major shocks in the relative price of raw materials, and in particular fuels. The large commodity price rises in the 1970s, in particular of oil, led to a marked increase in the share of developing countries in extra-EC imports. However, this process was reversed in the eighties when, in particular after 1985, the terms of trade of primary commodities, including oil, deteriorated sharply. As a result the share of developed countries in extra-EC imports increased again, reaching 59.7 percent in 1990 (59.4 % in 1991), compared with 46.1 percent in 1980.

19. In 1990, EFTA countries as a whole represented the largest import supplier, accounting for 23.5% of total Community imports (22.4 % in 1991), that is over 6 percentage points above the corresponding 1980 level. The USA remained the single most important trading partner, its share of Community imports fluctuating around 17-18% of total EC imports, with a certain acceleration in the late 1980s. Japan's share rose sharply, particularly between 1980 (4.9%) and 1988 (10.7%). In 1990, Japan was the second largest individual supplier of the Community market after the United States.

20. Among the group of developing countries the trends are very divergent. The OPEC countries' share of Community imports has fallen dramatically from 27% in 1980 to 9.7% in 1990 (9.5 % in 1991) as a result of the fall in oil prices during the eighties, the implementation of energy conservation measures and the Community's reduced dependency on OPEC as a source of oil supply. Also ACP countries (7.3% in 1980, 3.9% in 1991) and to a somewhat smaller extent the Latin American countries (5.8% in 1980, 5.2% in 1991) saw their relative importance as a source of Community imports reduced during the eighties. This should be contrasted with the performances of Asian NIEs, of which the share in extra-EC imports increased from 2.2% in 1980 to 6.2% in 1991.

21. Although imports from Central and Eastern European countries and from ex USSR have recently increased, over the 1980s they accounted for a relatively small fraction of EC external trade. In 1991, the combined share of Central and Eastern Europe in total EC imports was still at a relatively modest 7.0%, broadly equivalent to Switzerland alone.(1)

22. In 1991, the former Soviet Union, China and Canada were among the ten leading suppliers of the Community market, in addition to the United States, Japan and five EFTA countries. Over the last decade, Turkey, China, Taiwan, the former Yugoslavia, Japan, Thailand, South Korea, Pakistan and Austria, in this order, have made the biggest inroads into the Community market. The value of Community imports from these countries has increased at a rate three to seven times as fast as total extra-EC imports. By contrast, the largest market share losses have been experienced by the oil-exporting countries.

(1) See table 1, column 'Eastern Europe' which gives aggregate figures for these countries. Tables A2 and A3 in the statistical annex show 1991 data for the two groups taken separately and show the recent growth in trade.

Exports

23. The geographical pattern of Community exports is to a certain extent the mirror image of the import developments described above. The share of total exports directed to developed countries has increased substantially during the 1980s, reaching 57.2% in 1991 from 49.6% a decade earlier (see table A). In 1991, EFTA markets accounted for more than a quarter (25.7%) of Community exports. The United States represented the second largest market with 16.8% of Community exports in 1991, compared to only 12.8% in 1980. The expansion of EC exports on the US market has been particularly vigorous in 1984-85, in conjunction with the appreciation of the dollar. The share of EC exports to Japan doubled between 1984 and 1991 to 5.2%. However, despite the significant growth of Japan as an export market, Switzerland (9.5%) and Austria (6.8%) were each in 1991 as large, or a larger outlet for Community merchandise exports.

24. The share of EC exports to developing countries amounted to 33.7% in 1991, compared with 45.9% in 1980 (see table 1). This reduced importance of the developing countries as an export market reflects on the one hand the reduced purchasing power in the developing countries on account of depressed commodity prices and on the other hand the need in many developing countries to generate a trade surplus in order to service external debt obligations. Consequently the share in extra-EC exports of OPEC countries, the ACP countries and Latin America decreased considerably during the eighties, while the Asian NIEs proved to be very dynamic, as their share in the Community's exports increased from 2.7% in 1980 to 6.1% in 1991. Over the same period, the substantial fall of exports to both OPEC, from 12.7% to 9.3%, and Latin American countries, from 6.1% to 4.1%, more than outweighed the marked increase of EC exports to the Asian NIEs, whose share more than doubled to 6.1% in 1991 (see table 1). In fact, exports to the NIEs approached those to the countries of Central and Eastern Europe, where 7.5% of EC exports were directed. It is, however, worth noting that in 1991 the former Soviet Union and Yugoslavia still ranked among the ten leading individual markets for Community exports. The markets where EC exports have expanded most rapidly during the 1980s are mainly those of fast growing countries in the Far East. They include, in decreasing order, South Korea, Taiwan, Japan, Turkey, Singapore, Hong Kong, Israel, China and the United States. Exports to these countries have increased at a rate two to five times as fast as the average for total Community exports.

Services

25. In common with most other economies, developed and developing, the services sector in the Community accounts for a very large share of GDP - nearly two-thirds - with market services accounting for around 50% of GDP. The services sector employed 80.3 million in 1990, compared with 42.8 million in manufacturing; while the latter figure has declined at an average annual rate of 1.9% during the 1980s, market services employment has grown at an average of 1.3%.

26. Net output in the market services sector has also grown faster than average, at 2.8% p.a. from 1980-86, compared with the average for all sectors of 2.0% and of only 0.8% in manufacturing. Growth in some sectors has been very rapid, with communications services averaging 5.1% and financial services 4.4%.

27. The Community is the largest single trading entity for both services and goods. With credits in its balance of payments for services supplied to third countries in 1989 at ECU 139 billion and debits at ECU 123 billion, a positive balance of ECU 13.8 billion was registered. Services trade in the current account is thus equivalent to 32.0% of trade in goods and the positive balance to 32.3% of that in goods. The comparable figures for trade in services for the US and Japan are 21% and 26% of trade in goods respectively. These figures suggest that the Community's services market is more open than that of its major trading partners, with trade in services accounting for just under 3% of GDP, compared with only 2% in the United States and Japan. The situation is less clear for trade through establishment, but the importance of foreign direct investment in certain services sectors suggests that a comparable situation exists in this area.

28. The transport and the travel sectors account for the bulk of the Community's cross-border trade in services. In 1989 transport contributed around one-third of both credit and debit between the EC and third countries (see Table 2); while travel contributed approximately a quarter. Among other market services the most important in external trade are business services, trade earnings, banking and construction. The composition of EC trade in services has changed somewhat during the 1980s, with the share of transport in the total declining, while travel has increased its share significantly, in particular as concerns credits. The share of other market services in total extra-EC imports has also increased, reflecting <u>inter alia</u> an increased significance of the EC utilization of foreign patents.

Table 2: Composition of EC cross-border trade with third countries in market services

	1980		1989	
	Credit	Debit	Credit	Debit
	- percentage -		- percentage -	
Transport	37	39	33	36
Travel	19	21	25	23
Other Market Services	40	37	39	40
- trade earnings	6	7	5	7
- insurance	2	2	2	2
- banking	2	2	5	3
- business services	8	4	7	5
- construction	8	4	5	3
- income from patents	2	4	3	6
Other	4	3	3	1
Total	100	100	100	100

SOURCE: DG I Commission, based on statistics from the Statistical Office of the European Communities.

CHAPTER I.2 RECENT DEVELOPMENTS AND PROSPECTS

I.2.1. The Maastricht Treaty

1. Since the last Trade Policy Review of the Community took place, a major change has been agreed upon by the governments of the Member States that will shape the outlook for the Community until the end of the century. After reaching political agreement in December 1991, the Treaty on European Union ("Maastricht Treaty") was signed in February 1992 by the Member States. The Treaty will enter into force after ratification by all the Member States. In all likelihood, this will be in the course of 1993, now that the Edinburgh European Council reached an agreement in December 1992 which would allow the Danish government to organise a second referendum(1) in the first half of 1993.

2. The Maastricht Treaty is the result of separate, but parallel negotiations on Economic and Monetary Union (EMU) and European Political Union (EPU). It creates a European Union (Article A) which entails a European citizenship, functions on the basis of the guidelines set by the European Council and consists of three "pillars":

- a deepening of the existing Community with provisions on EMU as well as on other subject areas, and new democratic rules;
- a common foreign and security policy;
- cooperation in the fields of justice and home affairs.

For the purpose of the Trade Policy Review, the most relevant "pillar" is that which deepens the existing Community.

The Maastricht Treaty and the common commercial policy

3. The legal framework of the common commercial policy of the Community remains substantially unchanged under the provisions of the Maastricht Treaty. The modifications to the Treaty of Rome (e.g. repeal of Articles 111, 114 and 116), which will be introduced with the entry into force of the Maastricht Treaty, do not alter the system described in the previous TPR of the Community (chapters I.3 and I.4).
The objectives of the common commercial policy remain unchanged (Article 110) and there will be only minor modifications of substance to the content and instruments described in Article 113.

4. The provisions on the deflection of trade (Article 115) remain unchanged in substance; a comment on this subject (present situation and prospects) is contained in section II.1.2 of this Report.

(1) In a first referendum on 2 June 1992, the Danish population failed to approve the ratification of the Treaty. A second referendum is now scheduled for 18 May 1993.

On procedure, an improvement is provided for by the new text of Article 228, which establishes a single internal procedure to be followed in negotiating and concluding all kind of agreements. While existing procedures and practices for the negotiating stage are by and large retained, the main features where the conclusion of agreements is concerned are the extension of the requirement for Parliament's assent and the waiving of the co-decision and cooperation procedure in this field (Article 228(3)). Also, the Council may authorize the Commission to approve modifications to agreements on behalf of the Community (Article 228(4)).

5. The subsidiarity principle (new Article 3b) does not apply in areas of exclusive Community competence, such as the common commercial policy. A question could arise for those fields where: a) the internal Community competence has not yet been exercised (on the basis of the AETR case), or b) where trade policy is closely linked with another area of "mixed competence". Even in these hypotheses, taking into account the two core elements of the principle of subsidiarity (scale of the action and its effects), it appears that it would be almost always true, in the trade field, that "the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore be better achieved by the Community".
Finally it is worth recalling the provisions of Article C of the Maastricht Treaty, which - under "Common provisions" - contain an obligation for the Council and the Commission to cooperate wherever coordination is needed between national and Community policies.

6. Another innovation relevant to trade policy is to be found in the new Article 228a on embargo measures. In addition to the existing possibility of adopting such measures in the context of the common commercial policy, it is provided that in the framework of the common foreign and security policy, "the Council shall take the necessary urgent measures ... by a qualified majority on a proposal from the Commission". It has been noticed that this provision is one explicit "passerelle" or "bridge" between the two "pillars", the EC and the Union (another one is in Article 100c and an implicit bridge can be found in Article 73g).

The Maastricht Treaty and the EMU

7. The provisions on EMU outline the three different stages which will take place on the road towards a single currency and the functioning of the single currency regime.

Stage 1 started already on 1 July 1990, and entailed the almost complete liberalization of capital movements inside the Community (with derogations possible for Spain and Ireland until 31 December 1992 and for Portugal and Greece until 31 December 1995; there is also a safeguard clause which can be applied for a maximum of six months) and a reinforcement of economic and monetary policy coordination. After ratification, the composition of the ECU, which is now a basket of currencies, will be frozen. Member States also have the obligation to submit programmes in which they present their policies aimed at meeting the conditions for participating in the single currency in stage three.

8. Stage 2 will start on 1 January 1994. At that date, the European Monetary Institute will be established, which will strengthen monetary policy cooperation, monitor the functioning of the EMS and prepare the regulatory, organizational and logistical framework for the European System of Central Banks (ESCB) to perform its tasks in the third stage.
Also, at the beginning of stage 2, national restrictions on capital movements to or from third countries become subject to a standstill clause and can be liberalized further by a qualified majority. Furthermore, governments of Member States can no longer have access to central bank credit or have privileged access to financial institutions for financing their deficits, and their liabilities cannot be taken over by other Member States or the Community (no bail-out). A special procedure starts to operate according to which the Council can decide that the public deficit or the public debt of a Member State is excessively high, making recommendations on how to reduce it.

9. Before the end of 1996, the Heads of State or Government will decide whether a simple majority of Member States is ready to participate in a single currency, after analysing:

(i) whether rates of inflation and long-term interest rates are sufficiently low;
(ii) whether public deficits and debts are not excessively high and
(iii) whether there has been exchange rate stability for two years.

If no decision to move to stage 3 has been taken by the end of 1997, it will begin automatically on 1 January 1999, with the Member States meeting the conditions for a single currency, even if there is no majority.

Member States fully participating in stage three irrevocably lock their exchange rate parities, after which the single currency is rapidly introduced.

10. From the first day of stage 3, there will be a single monetary policy formulated and executed by the independent European Central Bank (ECB), with the primary goal of price stability. Formal exchange rate regimes for the single currency and broad guidelines for exchange rate policy are determined by the Council, while day-to-day exchange rate policy is the responsibility of the ECB. Member States now have the obligation to avoid excessively high public debts and deficits, at the cost of receiving sanctions up to fines of appropriate size. There is also financial assistance in the case of exceptional shocks outside the control of governments.

11. Member States which are not yet ready to participate in the single currency still have certain rights and obligations in stage 3. Their central banks will have to be made independent and will be part of the European System of Central Banks (ESCB), and they take part in the General Council of the ESCB designed to continue the cooperation framework between Member States with and without the single currency. Such Member States also have the obligation to avoid excessively high public debt and deficits (without sanctions, however) and can receive financial assistance. The United Kingdom and Denmark, if they choose to opt out in spite of meeting the conditions for a single currency, would have special arrangements.

In-depth analysis by the Commission of the economic impact of EMU has demonstrated that it will contribute to a stable economic environment with low inflation, sound public finance and increased investment opportunities which will stimulate economic growth. The fact that EMU will operate in accordance with the principle of open market economies with free competition will ensure that these gains will also be extended to the Community's trade partners.

I.2.2. The European Economic Area - prospects for enlargement

Introduction

12. Following the successful conclusion of the negotiations between the EC and the EFTA States on 14 February 1992, the Agreement on the European Economic Area was signed in Porto on 2 May 1992. Ratification procedures were initiated by all signatory parties. On 6 December 1992 the Swiss people rejected the EEA Agreement in a referendum with a majority of 50.3% no votes against 49.7% yes votes. As a consequence Switzerland will not participate in the EEA and the Agreement could not enter into force on 1 January 1993 as scheduled, because the remaining parties first had to make the necessary adjustments to the Agreement.
In Liechtenstein a majority of 55.8% of the population expressed itself in favour of participation in the EEA in a popular vote which was held one week after the Swiss referendum. However, Liechtenstein cannot participate in the EEA without Switzerland unless it modifies its contractual arrangements with Switzerland. The procedures for entry into force of the EEA Agreement under these changed circumstances will be established in an additional protocol which has to be ratified by the remaining contracting parties. The revised EEA Agreement will enter into force on 1 July 1993 or, if ratification procedures have not been completed by then, on the first day of the month following the deposit of the last instrument of ratification.

Outline of the EEA Agreement

13. The EEA Agreement expands and deepens the free trade relations established through the Free Trade Agreements concluded in 1972 and 1973 between the EC and each of the EFTA countries. The latter agreements, those concluded between the EC and a number of EFTA countries in 1974 and 1975 in the area of coal and steel, as well as the Stockholm Convention of 1960 between the EFTA states, remain valid but the EEA Agreement shall prevail to the extent that it governs the same subject matter.

The EEA Agreement aims at establishing a dynamic and homogeneous European Economic Area in which there will be free movement of goods, persons, capital and services (the "four freedoms") under equal conditions of competition. The EEA objectives will be achieved through EEA rules which correspond to relevant EC rules including their interpretation by the EC Court of Justice (the "EC acquis") in all areas concerned including competition policy and state aid; and through what are termed horizontal policies which are related to the four freedoms, e.g. company law, statistics, relevant parts of social and environmental policy. The EEA Agreement also provides for strengthened cooperation in areas outside the four freedoms such as R & D, training, small and medium sized enterprises, consumer protection, audiovisual matters, and elements of environmental and social policy. The Agreement contains, moreover, provisions on a financial EFTA mechanism, aimed at the reduction of economic and social regional disparities.

Institutional provisions

14. The institutional framework of the EEA is constituted by an EEA Council at Ministerial level, an EEA Joint Committee (responsible for the effective implementation and operation of the EEA Agreement), an EEA Joint Parliamentary Committee and an EEA Consultative Committee (bringing together social partners of both sides). The EEA Agreement provides for cooperation (such as a continuous process of information and consultation during all phases of the Community legislative procedures) as well as for rules on dispute settlement which aim at reconciling to the maximum extent possible the homogeneity of the applicable rules and the preservation of the decision-making autonomy of the Parties to the EEA Agreement. The EFTA States will create an independent Surveillance Body and an EFTA Court.

The EEA is not a customs union: it does not provide for a common external tariff or a common trade policy. The EC and the EFTA States will remain autonomous in their third country relations and retain their treaty making power.

Extension of the four freedoms

15. The EEA Agreement builds on the achievements under the Free Trade Agreements concluded in 1972 and 1973 between the EC and the EFTA States. Under the latter Agreements customs duties and other barriers to trade including charges having and effect equivalent to duties, quantitative restrictions on imports and exports and discrimination through internal taxes or repayment of tax on exports, have been abolished, completely or in relation to substantially all the trade. The EEA Agreement goes beyond the FTAs, inter alia as a consequence of following improvements and additions:

(i) Goods

- improved arrangements for trade in processed agricultural products in particular with regard to price compensation for agricultural raw materials and charges having equivalent effect (including complete abolition in some cases).

- trade liberalization for fishery products (EFTA duties abolished, substantial reduction of Community duties);

- introduction of a further developments clause for agriculture aiming at progressive liberalization of agricultural trade; broadening of existing bilateral agricultural agreements; elimination of technical barriers to trade (e.g. wine, barriers resulting from veterinary and plant health rules);

- abolition of remaining restrictions in the area of coal and steel products (scrap exports) and strengthening of competition rules in this area on the basis of EC acquis;

- reduction of excluded products in HS Chapters 25-97 to only casein, certain albumins and dextrins;

- simplification and relaxation of the rules of origin, including introduction of EEA origin (complete cumulation);

- considerable strengthening of the rules on competition; the full Community acquis on antitrust and merger control will be applicable throughout the EEA; creation of an independent EFTA Surveillance body with role and powers similar to those of the EC Commission;

- ditto with regard to state aid;

- non-application (under certain conditions) between the Parties to the Agreement of antidumping measures, countervailing duties and measures against illicit commercial practices;

- application throughout the EEA of EC acquis on state monopolies of a commercial character regarding the procurement and marketing conditions between nationals of EC and EFTA States;

- elimination of technical barriers to trade by the application throughout the EEA of EC legislation relating to free movement of goods and of the principle of mutual recognition (on the basis of the EC Court of Justice's "Cassis de Dijon" ruling);

- simplification of border controls and strengthening of cooperation between customs authorities;

- application throughout the EEA of EC acquis concerning intellectual, industrial and commercial property rights (semiconductors, trade marks, computer programmes); EFTA States will adjust to level prevailing in the Community; EFTA participation in the Community's Patents Agreement; commitment of the Parties to adhere to a number of multilateral conventions and to improve the EEA regime of intellectual property rights in the light of the results of the Uruguay Round;

- opening up of public procurement throughout the EEA on the basis of EC acquis; existing obligations of the EFTA States and EC Member States under the GATT Government Procurement Agreement remain unaffected.

(ii) Services

The EC acquis on financial services such as banking and insurances (including the "single licence" and "home country control") will be applicable throughout the EEA; the same applies to telecommunications and to transport (with special arrangements on road transit through Austria and Switzerland). The above indents concerning intellectual, industrial and commercial property rights and public procurement also apply to the services sector.

(iii) Capital movements

Liberalization throughout the EEA of capital movements as provided under EC acquis.

(iv) Persons

Right of establishment and free movement of workers and independents, non-discriminatory application of rules on social security and recognition of diplomas throughout the EEA as under EC acquis.

16. The EEA Agreement provides for safeguard measures in case of serious economic, social or environmental difficulties of a sectoral or regional nature liable to persist, and in case of balance of payments problems.

The EEA Agreement also provides for transitional periods in some areas, most of them being of a duration of around 2 or 3 years. In some cases - mostly outside the area of goods - longer transitional period are foreseen, none going beyond 1999. Some derogations (non-application of EC acquis by EFTA countries) have been agreed upon but will be reviewed in the next few years under review clauses contained in the EEA Agreement.

EFTA States' applications for EC membership

17. Five out of seven EFTA States have submitted requests for accession negotiations with the EC. At the Edinburgh summit of 12 December 1992, the European Council decided on early negotiations with Austria, Sweden and Finland and the first sessions have taken place. A decision on negotiations with Norway was taken in early April. With regard to Switzerland the European Council invited the Commission to take account of the views of the Swiss government after the 6 December referendum in preparing its opinion on the Swiss' membership request.
It is too early to speculate on the fate of the EEA in the event of possibly four of its EFTA members joining the EC, leaving only Iceland and Liechtenstein on the EFTA side within the EEA. It would seem prudent to await the result of accession negotiations and the subsequent referenda in the applicant states.

I.2.3. The "Europe Agreements" and relations with Central and Eastern Europe

18. After two years of preparations and negotiations, association agreements, described as Europe Agreements, were signed in Brussels on 16 December 1991 with Hungary, Poland and Czechoslovakia. The Interim Agreements which cover the trade aspects of the Europe Agreements, i.e. the freedom of movement of goods and the relevant provisions concerning payment, capital movement and the rules on competition, entered into force on 1 March 1992.

19. For each of these three countries, association is a tangible means of turning its back on the past and "coming back into Europe". The agreements are mixed-type, covering Community and national spheres of competence, and they have been concluded for an unspecified period. For the first time, in addition to the aspects relating to commercial and economic cooperation, the "political dialogue" dimension and a cultural cooperation section are included. Their ultimate aim is the establishment of a free trade area. They form part of the goal of integrating these three countries into the Community. In the preamble to the agreements, the parties recognize that the ultimate objective of the associated countries is to become members of the Community, and association is designed to help them achieve this.

Negotiations on similar Europe Agreements with Romania and Bulgaria have been finalized and the texts were signed on 1 February for Romania, and on 8 March for Bulgaria.

The entry into force of the Interim Agreements with these two countries is to take place in the second half of this year.

20. The Community market was substantially opened up when the Interim Agreements with Hungary, Poland and Czechoslovakia for products from those countries entered into force. Already in 1991, over half their total exports came into the Community without any duty or quantitative restriction. In 1993, this percentage will be about 60%.

The Interim Agreements are aimed at gradually establishing a free trade area over a maximum of 10 years, in accordance with the principles of reciprocity although on an asymmetrical basis, as reflected in the rhythm of liberalization, which is the fastest in the Community's case.

21. For industrial products, the Community will abolish all its tariff and non-tariff barriers in five years, except for those concerning the most sensitive sectors, for which the liberalization measures are explained below.

The same objective will be attained in seven years by Poland (except for motor vehicles, imports of which will be liberalized in ten years) and in nine years by Hungary and Czechoslovakia.

For agricultural products[1], apart from the consolidation of the advantages arising from the GSP and confirmation of the abolition of quantitative restrictions by the Community, the parties have granted each other mutual concessions on a reciprocal basis. Specific provisions are laid down for fishery products.

22. Industrial products[2] (with the exception of textile and ECSC products, for which there are special protocols) are for the most part (over two-thirds) imported entirely duty free into the Community since the entry into force of the agreements. [For certain categories of sensitive products, taken from the Generalized System of Preferences, the duties will be phased out gradually, however.]

Commodities, which did not qualify for preferences under the GSP, will have their duties phased out:

- over one year for the less sensitive (in two stages each comprising a 50% reduction)
- over four years for the most sensitive (in five stages of 20%).

Sensitive products will be, along the lines of the GSP, subject to quotas or tariff ceilings at a zero rate of duty rising annually by 15% for Hungary and 20% for the other two countries, while the duties levied on the quantities exceeding these amounts will be reduced annually by 10% for Hungary and 15% for the other two countries. At the end of the fifth year, imports of the sensitive products referred to above will be fully liberalized.

Furthermore, for these products, quantitative restrictions and measures having equivalent effect were abolished upon entry into force of the agreements.

23. The Community will phase out the duties on textile products over six years, except for outward processing trade, which was liberalized upon entry into force of the agreements.

The quantitative restrictions will nevertheless have to be phased out, over not less than six years from 1 January 1992, a period half the length of that decided on in the Uruguay Round.

24. Upon the entry into force of the Interim Agreements, quantitative restrictions on imports of steel from the associated countries were abolished. The Community will phase out its customs duties over five years. Safeguard measures concerning low-priced imports of certain products from Czechoslovakia had to be taken in the course of 1992.

For coal from Poland and Czechoslovakia, the Community will abolish customs duties and quantitative restrictions in one year, with the exception of certain products imports of which will be liberalized in Spain and Germany within four years. The phasing-out of quantitative restrictions on products from Hungary will follow the same plan but import duties will be phased out throughout the Community in two stages within four years.

(1) More detailed information is given in Section II.2.1.
(2) Additional information is contained in Section II.2. of this Report.

25. For agricultural products the advantages arising from the application of the GSP to Hungary, Poland and Czechoslovakia are consolidated. Abolition by the Community of quantitative restrictions on agricultural products has been confirmed and applied upon entry into force of the Interim Agreement.

The above-mentioned consolidated concessions and the new concessions in the form of an annual 20% reduction in duties or levies over three years and five annual 10% increases in the relevant quantities have been laid down.

The opening-up of the Community market to imports of agricultural products from the associated countries should enable them at least to double in five years.

26. Safeguard and anti-dumping measures. The general safeguard clause contained in the agreements ties in perfectly with GATT rules. The Community has made a major concession in the form of a clause allowing the three countries to protect their incipient industries during the transitional period. Another derogation enables them to cope with balance of payments difficulties. A specific safeguard clause, but one which the two parties to the agreements can invoke, has been laid down for textile products and agricultural products. The "state-trading country" arrangements which the Community applied in respect of dumping were replaced on 1 March 1992 by the normal GATT arrangements.

Following the bilateral consultation procedures provided for in the agreements in the context of the Association Council for anti-dumping and safeguard measures, greater importance is attached to consultation and conciliation than to unilateral action.

27. The initial effects of the entry into force of the Interim Agreements with Poland, Hungary and Czechoslovakia are already to be seen in trade statistics including, generally speaking, the statistics on sensitive products. This is particularly true of Czechoslovakia and Hungary, but less so of Poland.

EC imports from Poland, Czechoslovakia and Hungary
for the first six months of 1992
(base index = 100 = 6 months 1991)

	P	C	H
total	111	152	112
live animals, animal products	83	75	97
vegetable products	80	167	112
prepared foodstuffs	99	155	111
chemicals	90	122	111
textiles	116	153	112
base metals (including steel)	134	219	114

28. The Europe Agreements are open to developments and allow for improvements to the concessions during the transitional period if the economic situation permits. These new measures will be examined and discussed during 1993.

S E C T I O N   I I

IMPLEMENTATION

OF

COMMERCIAL POLICIES

CHAPTER II.1 COMPLETION OF THE SINGLE MARKET (impact on trade)

II.1.1. Introduction

1. The chapters under the general heading of the completion of the Single Market are intended to show the favourable impact that various measures adopted by the Community will have on investment and business opportunities for trading partners. It is by now well established that the near-hysteria of a few years ago which led to the concept of "Fortress Europe" has been overtaken by a clearer assessment of the realities of the single market programme and these chapters are designed to provide more specific evidence of the liberal and market-opening effects of the measures which have been adopted.

2. European Heads of State and Government have on many occasions reaffirmed that the Community's approach is based on an open multilateral trading system and that the guiding principles of the single market programme should be to open up further possibilities for access for third countries in such areas as services, especially financial services, public procurement, etc. Europe's stated intention is to be a world partner and this has been described as a "Europe which is open, but not for the taking". In other words, the Community will, particularly in the negotiating context of the Uruguay Round, seek improved access to the markets of its trading partners on a par with what it is offering to them through the new measures of policy harmonization and convergence achieved in the single market.

3. Going beyond the area of trade in goods and services, Article 58 of the Treaty of Rome guarantees equal rights for all enterprises established in the Community, whatever their ownership; and such established companies under foreign ownership are to be treated in exactly the same way as Community-owned enterprises.

II.1.2. Abolition of quantitative restrictions and gradual reduction of the scope of Article 115 of the EEC Treaty

Quantitative restrictions

4. Pursuing its policy based on the liberalization of trade with non-Member countries, the Community has abolished many of the remaining quantitative restrictions applied with regard to the Contracting Parties and in particular Japan (Regulation (EEC) No 2978/91 of 7 October 1991[1] and Regulation (EEC) No 2875/92 of 21 September 1992.[2])

(1) OJ L 284, 12.10.1991.
(2) OJ L 287, 2.10.1992.

In addition, given the prospect of the attainment of the single market, the Commission has put before the Council for approval, which to date has not been given, a number of proposals concerning the various common rules applicable to imports originating in market-economy non-Community countries and state-trading countries.

These proposals are aimed at completing the common commercial policy by standardizing import conditions and simplifying the formalities to be completed by the importer.

5. In the Commission's opinion, a uniform common commercial policy is a necessary complement to the single market and would appear to be the only way of ensuring that the rules concerning the Community's trade with other countries take into account the situation arising from the integration of the Member States' markets and economies.

Article 115 of the Treaty

6. The single market is now a reality and the abolition of internal frontiers presents the problem of applying Article 115 of the Treaty.

Until 31 December 1992, it was at their national frontiers that Member States kept track of intra-Community trade and applied the protective measures authorized by the Commission.

7. It should, however, be noted that the Commission has for a long time endeavoured to eliminate the basic conditions which justify recourse to Article 115 of the Treaty.

This action has been taken on two fronts:

- the first (external) approach involved proposals for implementing uniform import rules (see the preceding point). The Commission has in this way pursued the objective of eliminating disparities in the trade measures applied by the Member States and consequently the deflection of trade underlying recourse to Article 115 of the Treaty.

- the second (internal) approach involved establishing increasingly restrictive criteria for granting authorization to apply protective measures and also at the same time taking steps in the context of social and regional policies and measures of an industrial nature, in order to enable certain sensitive sectors to become more competitive and cope better with the increased competition in the single market.

8. It should be pointed out that since June 1992 only two authorizations under Article 115 have been granted by the Commission. These are two very special cases involving intra-Community imports of bananas originating in the dollar zone, pending the establishment of a common market organization for bananas.

No measure has been authorized during 1993 (as at 15 March).

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Banana sector

9. In February 1993, the EC Council (Agriculture) adopted regulations to establish a common market organization in the banana sector, including inter alia a new import regime. The new regime which is to take effect on 1 July 1993, is based on the tariffication of preexisting regimes and the establishment of a tariff rate quota bound in the GATT. This quota may be adjusted in the light of supply and demand conditions. In June 1992, Colombia, Costa Rica, Guatemala, Nicaragua and Venezuela had requested consultations with the EC regarding its existing banana import regime. Following bilateral consultations, the Latin American producers requested dispute settlement procedures under Article XXIII of GATT. The February 1993 GATT Council approved immediate formation of a panel to hear the Latin American challenge to member state individual quotas. The same parties are currently engaged in formal consultations with the EC regarding the new regime.

II.1.3. Public Procurement

10. The Community has largely completed its overall programme of legislation on the competitive award of supplies, works and services contracts by public administrations and by utilities operating in the water, energy, transport and telecommunications sectors.

In addition, in order to ensure effective and correct compliance with the rules, the Community has adopted two Directives which provide review procedures and remedies to suppliers claiming infringement of Community law in an award procedure.

The new Directives regarding supply contracts and works contracts awarded by public administrations will come into force in 1989 and 1990. The corresponding Remedies Directive came into force on 21 December 1991.

The Directive on service contracts awarded by public administrations will come into force on 1 July 1993. It will also be subject to the existing Remedies Directive.

The Directive on supply and works contracts awarded by the utilities came into force on 1 January 1993 together with the corresponding Remedies Directive (Greece, Spain and Portugal are however subject to a transitional period).

With the adoption of the last Directive in 1993 (relating to service contracts awarded by the utilities) the legislative programme in the field of procurement will be complete.

11. The achievement of a single market in procurement facilitates access for tenderers of all nationalities.

Moreover, the Community is pursuing further liberalization at the international level. This has already been achieved in the context of the Agreement on the European Economic Area; negotiations are still under way as regards the GATT Government Procurement Code.

Difficulties have, however, arisen in the context of telecommunications and other public utilities where the Directive establishes a small degree of Community preference, to be applied until a comprehensive international agreement is recached in these areas of procurement, giving the Community the same access to other markets as it is prepared to offer to third countries under the Directive. Discussions are in porgress, especially with the USA.

II.1.4. Standards and certification

12. The different national technical regulations, testing and certification requirements and voluntary industrial standards within the Community create difficulties for trade and may, in certain cases, constitute technical barriers. The removal of such barriers is therefore crucial both to the completion of the single market and to the realization of its full economic benefits.

13. The Community approach to removing barriers to technical regulations rests on two principles:

- Mutual recognition of national rules; following the landmark Cassis de Dijon judgement of the European Court of Justice, any product which is legally put on the market in one Member State can freely circulate throughout the Community (Article 30 of the Treaty). This includes mutual recognition of technical specifications and testing and certification requirements. Member States may derogate from the general principle of Article 30 by virtue of Article 36 in the interest of health/safety, environmental and consumer safety.

- Where appropriate, harmonization of national legislation in cases where this creates different levels of protection for the essential requirements of public health/safety, environmental and consumer safety. Where appropriate Article 100 and 100a provide for Community-wide harmonization in these areas.

14. There are two approaches in the EC to harmonization. The first, known as the "old approach", aims to incorporate all the technical details of the mandatory technical requirements in a harmonizing Directive. The second, known as the "new approach", sets out the essential policy requirements of the Directive in order to achieve harmonization. Under the "new approach" the manufacturer may choose the most appropriate technical means of fulfilling these requirements. The Commission has issued mandates to the European Standardization bodies (CEN, CENELEC and ETSI) to elaborate voluntary harmonized standards which provide a presumption of conformity to the essential requirements of these Directives. These harmonized standards are not mandatory but offer a "fast track" to the Community market in sectors covered by the "new approach". Moreover, where possible these standards are based on international standards drawn up by ISO or IEC.

15. The creation of a common body of rules for regulated product sectors rather than a plethora of different national rules, will not be achieved without major efforts on the part of the Member States; but it will bring considerable cost savings and improved access for third countries.

16. The Community has also taken up a number of initiatives in order to reduce technical barriers to trade outside the legislative framework, by promoting interest in European standardization in its own right. Moreover, by supporting close cooperation between the European standard-setting bodies and the International Standards bodies (ISO/IEC) in particular through the Vienna Agreement of 1991, the Community has demonstrated its commitment to the enhancement of international standardization as a way of removing technical barriers to trade. This agreement includes the adoption of accelerated procedures for the application of International Standards as European Standards and improved procedures to avoid duplication of work on individual standards.

17. To complete the "new approach" to harmonization, the Community has put into place the "Global approach to testing and certification". The global approach sets out a system of conformity assessment which provides a credible, transparent and technically competent environment with the minimum intervention which is necessary in order to ensure that the product meets adequate levels of health and safety. In developing this system the Community has based its mechanisms on international practices. ISO/IEC guides and standards as well as ILAC material form the basis of the system.

18. The Community is now willing to go beyond its GATT commitments to improve trade in regulated products by establishing mutual recognition agreements for conformity assessment between the Community and third countries(1) and by establishing cooperation and technical assistance programmes to assist developing countries to improve their conformity assessment infrastructure. There are three main conditions for concluding a mutual recognition agreement : the competence of the third country technical bodies, limitation of recognition to the activity of the bodies designated, and achieving a balanced situation with regard to the advantages derived by both Parties for the products concerned. In this area the European Community is thus offering a comprehensive policy to secure the removal of technical barriers.

II.1.5. **Pharmaceuticals**

19. Of all the industrial sectors, pharmaceuticals is probably the one on which, throughout the world, the relevant authorities impose the tightest rules and checks, for reasons of public health and social policy.

(1) Council Resolution of 21 December 1989.

Harmonization of health legislation applicable to medicines

20. The European Community's objective in this tightly regulated area is to ensure that the requirements specific to this sector do not create unjustified barriers to intra-Community trade. The Community has already done a great deal of work on technical harmonization to that end. In future, in order to prevent the creation of new barriers to trade, the Member States must inform the Commission before adopting any new rule or technical standard. If necessary, the Commission will propose a harmonized solution for the entire Community.

For reasons of public health, the marketing of a medicine is subject to an authorization issued upon completion of the evaluation of a dossier presented by the firm concerned; this authorization shows that the product in question meets the three traditional criteria of quality, safety and effectiveness.

The Community has endeavoured to harmonize public health requirements, i.e. the content of these three criteria and certain aspects of the procedure for authorizing the placing of products on the market. These efforts at harmonization have taken the form of technical directives and guidelines drawn up jointly by experts from the twelve Member States.

Towards a single evaluation of medicines in the Community

21. Despite the level of harmonization attained, there may still be differences between the various national authorizations. It is therefore advisable to ensure, where necessary, that national marketing authorizations are coordinated and that pharmaceutical firms have access to procedures for evaluating at Community level medicines which are to be marketed in a number of Member States. These authorizations are now coordinated within Community scientific committees, but the opinions delivered are not binding.

22. Since March 1988 the Commission has held consultations with the relevant authorities of the Member States, the pharmaceutical industry and representatives of other European organizations concerned. On the basis of these consultations, the Commission has drawn up four proposals, which are at present undergoing their second reading in Parliament (OJ C 330, 31 December 1990 and OJ C 310, 30 November 1991); final adoption should take place in the first half of this year.

Under the future system, from 1995 there will be three procedures for registering medicines:

- a centralized Community procedure, valid for the 12 Member States, reserved for certain new medicines,

- a decentralized procedure, for most medicines, based on mutual recognition of national authorizations,

- a national procedure for certain medicines, confined to the market of a single Member State.

The use of the centralized procedure will be compulsory for biotechnological medicines, and optional for other advanced technology medicines and new active substances. These applications for authorizations will be submitted direct to a European agency for the evaluation of medicines, made up mainly of an enlarged Committee on Proprietary Medicinal Products (CPMP) and an enlarged Committee for Veterinary Medicinal Products (CVMP), assisted by an administrative and technical secretariat and receiving substantial scientific support from the relevant authorities of the Member States, with appropriate logistic resources. The opinions of the CPMP/CVMP will subsequently be changed by the Commission into decisions applicable to the entire Community.

The decentralized procedure is intended to allow the extension of a marketing authorization issued by one Member State to one or several other Member States, by means of their recognition of the final authorization.

International pharmaceutical harmonization

23. The importer of pharmaceutical products is subject to the same requirements as the producer established on Community territory and so will also benefit from the new marketing procedures resulting from the new medicine evaluation system.

Improvements made in the Community to the legislative environment benefit European firms and firms from other parts of the world alike.

On the European Community's initiative, an initial international conference on harmonization (ICH) was held in Brussels in 1991; it was attended by representatives of the relevant authorities in Japan, the United States and the Community, and the WHO was called upon to represent the interests of the rest of the world. EFTA and Canada also attended the discussions as observers. As a result of two further conferences, one planned for this year in the United States and the other in Japan in 1995, the greatest discrepancies in the testing of the quality, safety and effectiveness of medicines will probably be reduced.

Protection of pharmaceutical innovation

24. By Regulation (EEC) No 1768/92 the Council created a supplementary protection certificate for medicinal products, to be granted for a maximum of five years, so that effective intellectual property protection for 15 years from the date of the first marketing authorization can be provided. Similar measures had been adopted by the United States and Japan at the end of the 1980s.

II.1.6. **Services**

25. The Community's own development will reinforce the essentially open nature of its services market, as the internal market exercise is completed.

(i) Firstly, the legal structure of the Community ensures that the freedom to provide services is, in virtually all service sectors, guaranteed for any company established in a Member State. This is in contrast to the situation in many federal states, where there are often restrictions or prohibitions on the provision of services in one sub-federal entity by enterprises established in another.

(ii) Secondly, the internal market exercise has led to a significant harmonization of standards in many sectors. This reduction of internal barriers substantially facilitates the operations of service providers in the Community market, whatever their origin. Here again, many federal states continue to maintain a wide variety of standards and requirements which inhibit effective internal freedom to provide services.

(iii) Finally, the basis of internal liberalization in the Community has been that service providers authorized in one Member State are in general considered to be in a position to provide the same service in other Member States. An illustrative example is the adoption of the second banking directive, designed to allow banks to operate throughout the Community on a single banking licence from another Member State. As a result, barriers to entry of service providers from third countries have in most instances tended towards the most liberal regime applied by any individual Member State. This is not only consistent with an approach to economic integration aimed at ensuring that new barriers to third countries are not created as a result, but leads in practice to more liberalization than previously prevailed. In the context of negotiations on the General Agreement on Trade in Services, the Community expects its trading partners to make equally positive contributions.

26. The European Community pursues a liberal policy in its relations with third countries in the financial services sector. Access to its markets is open to establishment for foreign banks and firms, and once these are established, they receive the same treatment as banks or firms of domestic Community origin. This quality of treatment is often referred to as "national treatment".

The Community therefore expects other countries to offer similar opportunities to its financial institutions. For this reason, the Community directives in the financial sector - banking, insurance and securities - all provide for a procedure intended to ensure reciprocal treatment in third countries as follows.

First, the Commission must prepare a report on the treatment given to Community banks and insurance companies(1) by other countries. The first of such reports was submitted to the Council of Ministers in July 1992. The Commission may then enter into negotiation with third countries to secure the necessary improvements in access to and conditions of operation in their markets. As a last resort, it is possible to take measures involving the suspension of new applications for authorizations or the restriction of new authorizations. However, these procedures are not designed to close the Community's financial markets but rather, as the Community intends to keep its financial markets open to the rest of the world, to improve the liberalization of the global financial markets in other third countries.

27. The Community is therefore using the opportunity of the Uruguay Round of multilateral negotiations to seek such liberalization. If, in that context it is possible to reach agreement on a well balanced agreement on financial services, allowing comparable access for Community enterprises to third markets, the Community has said that it will forgo the use of its powers to suspend or restrict authorizations for foreign banks etc. seeking to operate in the EC. Indeed the new multilateral rules of the proposed General Agreement on Trade in Services or "GATS" would only allow application of those powers following approval of the relevant body.

28. The Community's external policy in financial services is not confined to the multilateral dimension. It stands ready to ratify the agreement establishing the European Economic Area under which the EFTA countries are committed to applying Community Directives thus creating a large single market in financial services, though, of course, the EEA agreement covers very much more than just financial services.

II.1.7. <u>Telecommunications</u>

<u>Completion of the internal market : Services</u>

29. Since the beginning of the 1980s a trend towards liberalization has developed in the Community leading to the publication by the Commission of the 1987 Green Paper on Telecommunications(2) and the adoption of subsequent Community legislation. When the last round of telecommunications directives was adopted in 1990 it was explicitly recognized that further change might be necessary and that the situation in the sector should be assessed and reconsidered in 1992.

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(1) Article 9 of Directive 89/646/EEC, Article 4 of Directive 90/618/EEC and Article 9 of Directive 90/619/EEC. The Investment Services Directive will also contain the same provisions relating to securities firms.

(2) Green paper on the Development of the Common Market for Telecommunications Services and Equipment.

As of 1 January 1993, the only remaining restriction on the provision of telecommunications services is that of public voice telephony. A number of additional fields, in particular mobile communications and satellite services are still not subject to competition in the Community; while liberalization of these market segments has been decided in principle, implementing legislation is still in preparation(1).

Regarding voice telephony services, Member States have generally opted, with the exception of the UK, to maintain monopoly structures. The Commission Directive 90/388/EEC provided for opening up of telecommunications services to competition but granted a temporary exception allowing monopolies on voice telephony. This option was to be reconsidered by the Commission in 1992.

30. The Community had opted for liberalisation to be introduced gradually on the basis of the "Open Network Provision" Doctrine(2) (Council Directive 90/387/EEC). In this way, it was possible to find a balance between, on the one hand, the rights of the user (free use of terminals, connection of leased lines to the switched network) and on the other, the preservation of a specific regulation regime whose various aims would include protecting private service obligations and the integrity of the network and ensuring the promotion of international standards.

However, despite the progress made, the review carried out by the Commission in 1992 identified a number of remaining problems - in particular that telephone users are obliged to pay excessively high tariffs for intra-Community services. These were impeding the development of the internal market and limiting the growth potential of the sector. As a result of this review(3) therefore, further liberalization should be envisaged.

31. Four possible options are currently subject to a Community-wide public consultation:

- Option 1: maintaining the status quo;

- Option 2: introduction of extensive regulation of tariffs;

(1) In both fields, satellite and mobile communications, a number of Member States are moving in advance of Community legislation. France, Germany, the Netherlands and the United Kingdom have introduced liberalization. Greece is also preparing legislation in this area.

(2) ONP Doctrine implies the possible maintainance of a monopoly of basic services and the obligation for competitive services to respect "essential requirements". More specifically, the Community concept of ONP has three dimensions :
- the definition of technical interfaces for the interconnection of public networks;
- the setting up of conditions for using these public networks;
- the definition of tariffication principles for public services.

(3) "1992 Review of the Situation in the Telecommunications Services Sector", 21 October 1992.

- Option 3: full liberalization of all voice telephony, i.e. international (inside and outside the EC) and national calls;

- Option 4: opening up voice telephony between Member States to competition.

At this stage, there appears to be wide support for full liberalisation as the long term goal, with differences of view as to the timetable. The Commission has indicated that it favours increased competition, to be introduced gradually, as the best suited to the fundamental objectives of the Community in this policy area.

Telecommunications Equipment

32. Terminals. The Commission Directive 88/301/EEC(1) has liberalized EC-wide the market for terminal equipment. According to the terminals Directive, Member States shall withdraw exclusive rights for import, export, connection and maintainance of terminal equipment and give access to public network termination points. They shall also publish specifications and rules for approval of telecommunications terminal equipment and separate the regulatory and operational activities of telecommunications organisations.

33. Network Equipment. As of 1 January 1993, the entry into force of Community legislation in the field of public procurement(2) has allowed for the creation of a Community market for network equipment. With respect to offers originating in third countries, Community preference is provided for. This preference may be extended to products originating in third countries with which the Community has entered into agreements, on a bilateral or multilateral basis, ensuring comparable and effective access of Community supplies to the markets of these countries.

(1) Commission Directive 88/301/EEC on competition in the Markets in Telecommunications Terminal Equipment, 16 May 1988.

(2) Council Directive 90/531/EEC of 17 September 1990 (OJ L 297, 29.10.1990. p. 1) on the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors;

Council Directive 92/13/EEC of 25 February 1992 (OJ L76, 23.3.1992, p. 14) coordinating the law, regulations and administrative provisions relating to the application of Community rules on the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors.

CHAPTER II.2. SECTORS

II.2.1. Agriculture

1. In June 1992, the Council of Ministers agreed far-reaching reform of the common agricultural policy (CAP). The aim of these measures is to ensure better market balances, by approximating the Community market prices to the prices of the world market; and to compensate in part for the loss of income caused by the reduction of institutional prices through payments to producers.

These new measures shall apply with effect from the marketing year 1993/94 onwards.

The measures will be applied in conjunction with existing measures such as variable import levies and the use of public intervention, if need be.

2. In deciding the reform, the Council adopted the following main guidelines:

- a substantial reduction in the prices of agricultural products to make them more competitive both within the Community and elsewhere;

- ongoing compensation for this reduction through compensatory amounts or premiums not related to the quantities produced;

- implementation of measures to limit the use of the factors of production (set-aside of arable land, number of animals per hectare of forage area, etc.) alongside the retention of more drastic rules, such as quotas eg. for livestock in the beef and sheepmeat sectors.

3. At the same time, the Council decided to strengthen measures designed to protect the environment or improve links between agricultural activities and the protection of nature and the countryside, encourage certain categories of elderly farmers to cease farming and transfer their land to other holdings and promote the use of agricultural land for other purposes, such as forestry or leisure activities.

4. As the foremost agricultural trader, the Community, by changing its rules, is stating its willingness to join the movement towards freer trade advocated at the international level.

5. Under the reform producers of cereals, oilseeds and protein plants may receive payments to compensate for the price reductions in these sectors, provided they withdraw from cultivation part of their land, set from 1993/94 at 15% of the reference areas. Compensatory payments are on a per hectare basis and regionalized on the basis of yields over the period 1986/87 - 1990/91.

- To define the maximum area eligible for the premium, the Member States will calculate base areas equal to the average areas sown to cereals, oilseeds and protein plants during 1989, 1990 and 1991, plus areas fallowed under a publicly funded scheme.

- There will be a simplified scheme for small producers, i.e. those whose area is smaller than that required to produce 92 tonnes of cereals, given the yields in the region (EEC average: 20 hectares). Under this scheme:

  a) there are no conditions as regards withdrawal of land (set aside);

  b) a single aid per hectare will be paid in respect of all crops at the rate for cereals in the region.

- It will be possible (as an exception) to cultivate the areas set aside provided that the crop is not for human or animal consumption (e.g. biological fuel). These possibilities are to be tightly controlled in implementing rules.

6. The market arrangements for oilseeds were amended in December 1991. From 1993/94 they will be incorporated, with some adjustments, in the common system for arable crops. Since reference areas are laid down for all crops, in general the rules and compensatory payments system should not favour one product at the expense of another.

This compensatory payment will be paid in two instalments, one at the beginning of the year and the other at the end, and may be adjusted in the light of changes in world market prices.

7. The premiums granted under the common rules for the tobacco market have been quite substantially altered, as have the maximum guaranteed quantities introduced from 1989 when stabilizers were incorporated in the common agricultural policy. The arrangements will come into force in 1993.

For the purposes of the premiums, the 34 varieties currently cultivated in the Community have been divided into five groups, with three separate varieties in Greece. There will be a single premium for each group, which will be increased by 10% in the case of contracts signed with producers' associations.

Eligible quotas, which were set at 370 000 tonnes for 1993, will be reduced to 350 000 tonnes from 1994 and public intervention and export refunds will be discontinued.

8. As part of the reform, the Council confirmed in respect to animal products the main changes already made and took some of them further.

a. The keystone of milk policy remains the system of quotas, which will be reduced by 2% as soon as the market situation permits.

   The decision on prices is a reduction of 5% in the price of butter spread over the 1993/94 and 1994/95 marketing years.

b. In addition to livestock quotas in the beef and sheepmeat sectors, the Council decided to restrict support through premiums to a maximum density of livestock per hectare of forage area, as a means to avoid excessive concentration of livestock.

The new maximum densities, to be introduced gradually, are:

- 1993 : 3.5 LU per hectare of forage area
- 1994 : 3 LU per hectare of forage area
- 1995 : 2.5 LU per hectare of forage area
- from 1996 onwards : 2 LU per hectare of forage area.

c. The intervention price for beef will be reduced by 15% over three years.

The existing special premium for male animals, payable for up to 90 animals per producer, will continue and the rate of premium is to be increased in 1994 and 1995. It is payable no more than twice in the life of each animal, at the ages of 10 and 22 months.

In order to make slaughter less seasonal when, in a Member State, the percentage of male animals slaughtered between September and November exceeds 40% of the total number of that category slaughtered during the year, an additional premium of ECU 60 per animal is payable if those animals are slaughtered between 1 January and 30 April.

The suckler cow premium will also be continued, and the rate will be gradually increased to ECU 120 per cow; but will now be limited for each producer to the number of premiums paid in 1990, 1991 or 1992.

There will also be changes to the arrangements for intervention in the beef sector. These consist in particular of the imposition of ceilings for buying into intervention:

- 1993: 750 000 tonnes
- 1994: 650 000 tonnes
- 1995: 550 000 tonnes
- 1996: 400 000 tonnes
- 1997: 350 000 tonnes.

d. The current system of premiums for sheepmeat will continue with ceilings for producers fixed at 1 000 head in less-favoured areas and 500 head elsewhere. For animals in excess of those ceilings, only 50% of the premium per head will be paid. An individual limit per producer was introduced from 1993 under which, with some qualifications, the number of premiums per producer is limited to the number received in either 1989, 1990 or 1991.

9. Alongside the market measures three other types of measures will extend existing provisions and, still more important, introduce greater flexibility by promoting the afforestation of agricultural land, encouraging techniques which pay greater regard to the environment and making holdings more viable by increasing their size and reducing the labour force engaged in agriculture.

These provisions have three main aims:

- to encourage the introduction of early retirement schemes for farmers and farm workers;

- to promote the use of land for forestry;

- to grant aid for the introduction or maintenance of production techniques which encourage the protection of the environment, the landscape and natural resources.

II.2.2. Textiles and clothing

10. The general structure and objectives of the Community's policy in the textile sector was fully explained in the first TPRM report (C/RM/G/10, section II.2.2).

As a signatory of the MFA, the Community has negotiated bilateral agreements with 20 countries(1). In addition specific arrangements for administrative co-operation exist with five countries in the Mediterranean area within the framework of the preferential agreements. Textile protocols and agreements have been concluded with the Central and Eastern European Countries. The Commission has also negotiated an agreement covering the Republics of the former USSR.

11. At the time of the previous TPRM report in 1991, most had been extended (by a Protocol agreed in 1986) until mid-1991, and in view of the continuing negotiations in the Uruguay Round, this extension has been further prolonged until 31 December 1993. In 1992, these bilateral agreements were renewed for a two-year period, until 31 December 1994 with tacit renewal for an additional year if necessary. The agreements will be assumed to have ended automatically if the outcome of the Uruguay Round regarding textiles applies at an earlier date.

12. An MFA-type agreement was concluded for five years from 1993 with Viet Nam and, under the Europe Agreements, textiles protocols with restrictions were concluded with Hungary, Poland, Czechoslovakia, Romania and Bulgaria.

In the case of the republics which have replaced Yugoslavia, pending political clarification, the bilateral agreement was replaced in 1991 by autonomous arrangements, which were then extended for the following year.

Textiles negotiations are planned for this year with some of the republics established in the place of Yugoslavia and with the USSR successor republics. A textiles agreement was concluded with Mongolia at the beginning of the year with only one restriction.

(1) See Table 1. For two of these countries, the bilateral agreements contain no restrictions at present. Exchanges of letters with three countries in Latin and Central America provide only for administrative cooperation but no restrictions may be introduced.

For Taiwan, the Community has extended the autonomous arrangements in force; as regards the economic aspect these reflect the same terms as applied to the dominant countries (Hong Kong, Korea, Macao).

13. The agreements show marked differences in the number of categories subject to quantitative limits. For the major suppliers, there may be up to 40 quantitative limits. There may, however, be only one or two quantitative limits for small suppliers. From 1 January 1993, these quantitative limits imposed by the Community are no longer broken down among the Member States. The individual quantitative limits set for certain Member States were abolished by liberalization or, in certain specific cases, by making them Community-wide. The completion of the Community's internal market should afford major benefits for third-country suppliers.

14. Under the preferential economic cooperation or association agreements with the Mediterranean countries, the system of administrative cooperation was continued to enable the utilisation of certain categories of textile products and clothing to the Community to be closely watched. The objective is to prevent the increase in exports of certain sensitive products from disrupting the Community market. If such economic disruption occurs, the safeguard measures provided for by preferential economic cooperation or in the association agreements must be invoked. Administrative cooperation arrangements for textiles are in force with Turkey, Egypt, Morocco, Tunisia and Malta. These arrangements are generally valid for two or three years.

15. On the basis of Regulation (EEC) No 3420/83 ("autonomous arrangements"), certain textile products and articles of clothing imported from state-trading countries were subject until 31 December 1992 to quantitative restrictions at Member State level. In 1993 the corresponding quotas are still authorized by Community procedures on an annual basis, pending the adoption of Community arrangements in the context of the single market. In certain cases where countries have concluded an MFA or MFA-type textile agreement with the Community, these "autonomous" arrangements apply only to categories not covered by the bilateral agreements and to outward processing trade.

16. In the case of ex-USSR, all the restrictions contained in the bilateral agreement have been attributed on a cumulative basis, and by agreement, to the new independent states, with the exception of the Baltic States, for which individual surveillance for each country has been introduced. As regards former Yugoslavia, the autonomous arrangements for 1992 incorporate, on a cumulative basis, all the previous restrictions applicable, and take account of the embargo on trade with Serbia and Montenegro.

TABLE 1

List of supplier countries which have concluded bilateral agreements or arrangements for 1992 covered by autonomous arrangements

I. MFA AGREEMENTS

ASEAN

Indonesia
Malaysia
Philippines
Singapore
Thailand

SOUTH ASIA

India
Pakistan
Sri Lanka
Bangladesh (no restrictions)

FAR EAST

Hong Kong
South Korea
Macao
China (MFA-type agreement until 1992. China joined the MFA after signing).

LATIN AMERICA

Argentina
Peru
Brazil
Uruguay (no restrictions)
Colombia (exchange of letters)
Guatemala (exchange of letters)
Mexico (exchange of letters)

EASTERN EUROPE

Czechoslovakia
Hungary
Poland
Romania
Bulgaria

II. MFA-TYPE AGREEMENT

Ex-USSR (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgystan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Uzbekistan, Ukraine)

III. PREFERENTIAL ARRANGEMENTS

Egypt
Turkey
Morocco
Tunisia
Malta

IV. AUTONOMOUS ARRANGEMENTS

Taiwan
Ex-Yugoslavia (Bosnia-Herzegovina, Croatia, Montenegro, Serbia, Slovenia, Territory of the former Yugoslav Republic of Macedonia)
Estonia
Latvia
Lithuania

17. Compared with the previous agreements concluded under MFA III, the agreements concluded since 1986 under Article 4 of the MFA reflect a more open approach to textile products on the part of the Community; 25% of all the previous quantitative restrictions have been abolished. All the margins for category transfers, carry-overs, and cumulation of flexibility have been widened considerably and new facilities for inter-regional transfers (until attainment of the single market) and optional conversion of the quotas for children's clothing have been introduced.

18. In administering the 1986 agreements, the Community has adopted a flexible approach by limiting the introduction of new restrictions in the event of serious disruption of the Community market and also granting provisions allowing exceptional flexibility. All the new limits are the result of negotiations with supplier countries and no unilateral measure has been taken.

19. Consequently, the number of quantitative import restrictions in this sector is being reduced. In 1991, total Community imports (see Table 2) more than quadrupled in relation to 1976 and imports from the MFA countries increased to the same degree. For certain exporter countries (in particular Turkey and China), the rise in imports has been very much faster.

Between 1985 and 1991 alone, imports of MFA products into the Community from all sources increased by 97% in volume terms and 96% in value terms (ecus). Over the same period, the Community's trade balance for textiles and articles of clothing moved from a state of equilibrium to a deficit of ECU 12.6 billion. Imports from countries which had concluded an MFA agreement with the Community increased by 125% in volume terms, while imports from industrialized countries rose by only 44%.

20. Between 1985 and 1991, the Community's trade deficit with countries which had concluded MFA agreements deepened from ECU 6.5 billion to ECU 14.8 billion. This group of suppliers accounts for 65% of the increase in the Community's overall deficit in this sector.

II.2.3. Motor vehicles

21. The European Community is both the largest consumer and the largest producer of motor cars in the world, accounting for almost 40% of world production and consumption of cars. The EC is a major exporter and the second largest importer of vehicles in the world; but its net car exports, traditionally of considerable importance for its trade balance, have fallen significantly in recent years.

22. The market for passenger cars and light commercial vehicles in the European Community grew substantially in the second half of the 1980s. The number of new vehicles registered in 1990 was 13.9 million, as compared with only ECU 10.6 million in 1985. Despite the increase in demand generated by German reunification, new registrations stabilised in 1991 and 1992, and a strong decline is to be expected for 1993.

Production of passenger cars and light commercial vehicles followed demand and attained its highest level in 1989 (14.3 million units). In the recent past, production has decreased so that in 1991, only 13.7 million cars and LCVs were produced in the Community.

23. The generally positive production trend over the last ten years could partially compensate for the effect on the labour market of substantial productivity growth. However, it is estimated that more than 400 000 jobs were lost in car manufacturing during the 1980s. EC car production in 1991 was achieved with a workforce of approximately 1.2 million people directly employed in car manufacturing and a further 950 000 employed in the components sector.

24. Increased competition in the EC-manufacturers' internal and foreign car markets in conjunction with the recent weakness of demand in most major markets has now further accelerated EC manufacturers' efforts to increase productivity. This has led to very substantial job cuts already in 1992 and will lead to further cuts in the next years. The adjustment process is therefore already in full swing. Programmes to this effect have already been announced by both car and component producers eager to defend their position in an EC car market which will still be growing in the years to come, although - compared to the eighties - at a reduced rate.

In fact, in the year 2000, the Community will still constitute by far the most important integrated car market in the world. This and the EC-producers' bid to reconquer lost ground on foreign markets should form the basis of further expansion in EC car production.

25. The completion of the Community's internal market in 1993 is considered by the EC as constituting the best possible framework for placing the motor vehicle industry in a position to meet the challenge of international competition. By the same token, the creation of the internal market will provide the incentives for EC-industry to move fast on this matter.

In this context, which also comprises the approximation of indirect taxation and the strict control of state aids, technical harmonization is of particular importance. Following the adoption by the Council on 31 March 1992 of the last three separate directives necessary for the operation of EEC type approval, the harmonization of technical requirements for passenger cars has now been completed. From 1 January 1993 manufacturers need only take into account a single set of rules to market their products (cars as a whole, or their parts) throughout the Community.

A subsequent step in harmonization involves the transition, in 1996, from the present optional system to a total (mandatory) system.

26. Given the interlinkages between trade and investment in the present globalized economy, the Community is fundamentally in favour of direct foreign investment. It is also anxious to encourage better integration of such production into its economy, while abiding by its international commitments and without resorting to compulsory local content formulas. It is in this spirit that the Community welcomes the installation of Japanese manufacturers in the EC. Production of vehicles in such plants is estimated to be at least 600,000 units by the mid-1990s in the United Kingdom alone; and other forms of cooperation including joint ventures are being established in other Member States.

27. The attainment of the single market has also led the European Community to liberalize fully its car market by the turn of the century. National restrictions of Japanese imports or equivalent measures have therefore been abolished or have become ineffective since 1st January 1993. The EC-Japan agreement, which has been notified to the GATT, provides for a clearly defined transition period lasting until 1999 to allow the European motor industry to carry out the necessary adjustments towards adequate levels of international competitiveness and to avoid market disruption. During this period, the Community and the Japanese authorities will carry out regular consultations on export trends and forecasts, in order that Japan can monitor its exports to the Community and to the five Member States that previously restricted imports from Japan.

28. A round of such consultations has just been completed and both sides have acknowledged that demand in the Community in 1993 is estimated to fall by about 6.5 %. Compared to the previous year, Japan has accordingly forecast that its exports to the Community as a whole will be just below 1.1 million units in 1993 compared with just over 1.2 million units in the previous year. Individual export forecasts to the French, Italian, Spanish, Portuguese and UK markets have also been established. These forecasts do not constitute import ceilings, still less any form of restriction : and the numbers do not in any way include the figures for the output of Japanese car plants within the Community. Unofficial and unconfirmed estimates are that the total presence of Japanese badge vehicles in the Community market will double by the year 2000.

II.2.4. The iron and steel sector

29. The European Coal and Steel (ECSC) Treaty establishes a specific institutional context for commercial policy-making when compared with other industrial sectors which fall under the scope of the European Economic Community (EEC) Treaty. The ECSC Treaty covers most of what is internationally considered the iron and steel industry; the main exception being steel pipes and tubes.

Member States have greater powers in respect of commercial policy under the ECSC Treaty than under the EEC Treaty. Commission proposals require the unanimous assent of the Council to enact commercial policy, whereas for other products Commission proposals can be adopted by qualified majority. Accordingly, the concerns of individual Member States have to be very closely reflected in commercial policy-making in this sector.

30. Major problems in the Community steel industry led the Council to a series of conclusions on 25 February 1993 designed to ensure the successful restructuring of the steel sector in the Community. The Council approved an overall approach consisting of

- the establishment by industry before 30 September 1993 of a programme of closures up to the end of 1994 (or 1995 if appropriate);

- accompanying measures limited in time and strictly respecting the rules on state aid to cover

  - support meaasures, particularly in the social field;
  - structural improvements;
  - market stabilization;
  - external measures.

31. The internal subsidy discipline applying to the Community remains the Steel Aids Code (Decision 3855/91/ECSC)(1), as set out in the previous TPRM report for 1991. This Code came into force on 1 January 1992 for a five-year period.

The external measures proposed, in conformity with the Community's international obligations, include the following:

- the extension of the prior and subsequent surveillance of imports;

- the update of basic import prices;

- the negotiation of tariff quotas for 1993/1995 for sensitive products from Central and Eastern European countries with periodic revision to check that the conditions for the quota still apply;

- for certain imports from the CIS Republics (ex USSR), proposals to extend the Community quotas set for 1993 to later years;

- the use of all appropriate means to avoid the defintive adoption of excessive and unjustified trade measures recently taken by the United States.

32. Following the coming into force of interim agreements implementing the trade aspects of the Europe Agreements with the Czech and Slovak Republic (now taken over by the Czech Republic and the Slovak Republic), Hungary and Poland all undertakings, arrangements and other restrictions in respect of those countries expired at the beginning of 1992. In respect of Bulgaria and Romania, and the CIS Republics, Community quotas replaced national quotas from 1 J anuary 1993 in respect of certain products (in particular coils and heavy plates [Bulgaria] and coils, heavy plates, beams and heavy sections [Romania] pursuant to the Council Decisions of 28 December 1992.(2) The relevant interim agreements in respect of the Europe Agreements with Bulgaria and Romania will come into force at a later date, whereupon quotas will lapse as they have for the other Central and Eastern European countries. Special arrangements remain for trade between the ex-DDR and the ex-USSR.

33. Pursuant to the decision taken by the Council on 25 Febrary 1993, the Community will enter into negotiations with the Czech and Slovak Republics on a tariff quota in respect of certain sensitive steel products (principally those the subject of the Commission's decision of 14 August 1992 imposing restrictions on importation into Italy, Germany and France for 1992) pursuant to the safeguard measures provided for in the bilateral agreement between the Community and Czechoslovakia.

(1) OJ L 362, 31.12.91.
(2) Decisions 585, 586, 587/92/ECSC, 28.12.1992, OJ L 396, pp 48 to 53.

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34. From September 1984 until 31 March 1992 imports of steel into the United States from most of its major trading partners were subject to voluntary restraint agreements ("VRAs") which effectively limited the share of the US market open to foreign producers to approximately 18.5%. When the scheme came to an end the EC-12 share amounted to approximately 7.3%, partly reflecting under-utilisation of the quantities permitted.

At the time of the last extension of the VRAs in 1989, steel consensus agreements were concluded bilaterally between the US and the EC and the US and 9 other countries. These agreements were intended to ensure free and fair trade in the future and contained strict subsidy disciplines inspired by the internal EC steel aids code. They also contained a commitment to transpose this discipline into a multilateral framework under the GATT.

35. Since late 1990, following US proposals, negotiations have been held on a regular basis in Geneva to lay the basis for a Multilateral Steel Agreement. Following failure to reach agreement in March 1992, these talks were adjourned. Further rounds of talks were held in December 1992 and February 1993, and the Community hopes that these meetings will lead to the early resumption of meaningful negotiations. In the view of the Community, the MSA provides a unique opportunity to create a free and fair trade environment for steel, putting an end to the succession of managed trade agreements which have dominated the entire steel trade for over 20 years. The Community remains committed to these negotiations.

36. Following the adjournment of the MSA talks in March 1992, the US steel industry filed a large number of anti-dumping and countervailing duty petitions against imports from all their main steel trade partners. A total of 20 countries are involved, amongst them seven Member States of the Community. For the Community, this decision concerns a volume of trade of some 2 million tonnes, valued at $1 billion US.

The Community and most other delegations expressed their concern about the negative influence that these ongoing US antidumping and countervailing duty investigations may have on the chances of achieving a meaningful multilateral agreement and stressed the need to find a satisfactory solution quickly.

Moreover, the Community has requested consultations on these cases under both the GATT subsidies code and the anti-dumping code.

II.2.5. Civil aircraft

37. Trade in civil aircraft was the subject of a specific agreement in the Tokyo Round which provided for duty-free treatment for aircraft and aircraft parts as well as other disciplines, notably particular provisions relating to subsidies in this sector and the provision of inducement to airlines to buy aircraft from domestic manufacturers. Despite this, a number of disputes have arisen between the EC and the United States, one of which (the introduction of an exchange rate guarantee scheme after the privatization of Deutsche Airbus) was examined by a GATT Panel. In addition, the United States complained frequently of the subsidization allegedly provided by Airbus partner governments to Airbus production; while the Community has equally complained of the indirect advantages obtained by US aircraft manufacturers from their participation in defence and NASA activities, and from fiscal arangements in their favour.

38. In July 1992, the Community and the United States concluded a bilateral agreement concerning trade in large civil aircraft(1). This bilateral deal imposes a substantial number of restrictions on both direct and indirect government support to the commercial aircraft industry for any future large civil aircraft programmes undertaken by McDonnell Douglas and Boeing in the US and by the Airbus consortium in Europe, thereby putting an end to a long-running and potentially severely damaging transatlantic trade dispute.

(i) Firstly, the agreement introduces stringent disciplines on terms and conditions in respect to any future development support of the type generally provided by the four Member States participating in the Airbus consortium. Such direct government support in the form of reimbursable loans shall not be allowed to exceed 33 per cent of the total development costs of any new large civil aircraft programme, to be repaid within no more than 17 years from first disbursement.

(ii) Secondly, the agreement also includes substantive provisions with regard to indirect support, such as is provided extensively to the US industry by means of NASA and US Department of Defence funding or refunding of R & D programmes. The identifiable benefits to the development or production of any of the products covered by the bilateral agreement, net of recoupment, may not exceed (in any one year) 3 per cent of the annual commercial turnover of the civil aircraft industry(2).

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(1) Agreement between the European Economic Community and the Government of the United States of America concerning the application of the GATT Agreement on Trade in Civil Aircraft - OJ L 301, 17.10.1992.

(2) 4 per cent for each individual firm.

(iii) Thirdly, the inclusion of extensive transparency provisions is designed to give both sides an opportunity to verify full compliance with the terms of the agreement.

39. In accordance with Article 12 of their bilateral agreement, the Community and the US have now jointly proposed to embark on a new round of multilateral negotiations in the context of the GATT Committee on Trade in Civil Aircraft, with a view to incorporating similar disciplines along the lines of those laid down in the EC/US bilateral deal into a new GATT aircraft agreement to replace the 1979 text.

CHAPTER II.3. MANAGEMENT OF COMMERCIAL POLICY INSTRUMENTS

II.3.1. Tariff questions

1. The principal effort in the tariff field during the two years since the last TPRM has been devoted to the negotiations in the Uruguay Round. The Community has proposed from the start that the approach should be based on an overall formula cut on the principle of "the higher the duty, the deeper the cut": and this in order to meet the objectives laid down at the Mid-Term Review in Montreal for significant reductions in peak customs duties.

2. This approach was very widely supported by other participants, but categorically refused by another major trading partner. The Community is nevertheless pursuing the objectives laid down in Montreal through different approaches, notably through the specific proposals under discussion for harmonizing tariffs in the chemicals sector and, at EC initiative, also in the textiles and clothing sector.

3. The Community's customs tariff is, for industrial products, of a very homogeneous nature, with the vast mass of duty rates between 5% and 15%. There are virtually no duty rates above 20% in this sector (see Graph C). This explains the Community's insistence that any willingness to consider elimination of duties on a sectoral basis should be strictly conditional on substantial tariff reductions in peak duties by other countries. Only in this way can a balanced result be achieved.

4. More generally, the Community attaches major importance to securing improved tariff access to the markets of third countries in exchange for the significant improved access that would result from its Uruguay Round offer. A real reduction of non-tariff measures is also indispensable if the effect of tariff cuts is not to be nullified at a later date.

II.3.2. Rules of origin

5. This subject has been a matter of some attention, notably in the context of the increasing number of regional trading arrangements (NAFTA, MERCOSUR, ASEAN, Europe Agreements), as well as in certain contexts arising out of the single market programme (e.g. in public procurement). Here again the main effort of international discussion has been in the Uruguay Round and the draft agreement provides for, as a long-term objective, a substantial international harmonization of origin rules.

6. This should be of significant advantage to traders in all countries, but especially to those trading with the US, where the discussions have revealed that there are a substantial number of different origin systems in place for different policy purposes.

II.3.3. **Emergency trade measures**

7. As is pointed out in the Secretariat's report, the Community has not in recent years used the possibilities opened by Article XIX very frequently. In effect, the most typical cases that arise are in the agriculture and fisheries sectors, and the measures taken are usually of relatively short duration (less than one year). These measures are aimed at dealing with a variety of problems: in some cases arising out of health dangers associated with imports from third countries, in others arising out of imports offered in the Community at very low, rock-bottom prices, and in yet other cases arising out of both sudden surges in quantities as well as at low prices.

8. There are, in addition, some examples of safeguard measures introduced under the Community's free-trade agreements with its partners. The most recent example of this phenomenon is the measures agreed with the Czech and Slovak Republics during the second part of 1992 and now for 1993. In this connection it is important to underline:

- the fact that bilateral solutions are found in these cases indicates the preference of the parties to resolve their difficulties without litigation in GATT. It does not in any way indicate a loss of GATT rights for recourse to dispute settlement;

- the bilateral nature of the measures means that the impact on the trade of other Contracting Parties is either avoided altogether or kept to the strict minimum. This corresponds to the fact that the origin of the problem lay in the imports from the preferential partners concerned rather than from other Contracting Parties.

9. As regards voluntary restraint arrangements of various kinds, the Community has, in the past, had recourse to such arrangements. The Secretariat's report, if compared to the first TPRM, shows that the number of such arrangements is declining. Specifically, in the last two years a number of measures at the national level, e.g. relating to imports of motor vehicles, have been eliminated. The rationale for the use of such arrangements is, of course, that the application of emergency measures under Article XIX on a selective basis has not received universal support in GATT, although such measures would be more limited in their impact than measures on an MFN basis.

10. For the future, the draft agreement negotiated in the Uruguay Round foresees that voluntary restraint arrangements would be phased out within a relatively short period unless such action can be justified under the new criteria in the agreement. The Community naturally stands ready to respect its future obligations in this context.

II.3.4. Anti-dumping issues

11. Anti-dumping policies and measures have been the subject of increasing attention in recent years, and there appears to be a widespread perception in certain exporting countries and in the media that importing countries have in some way changed their policy objectives or their procedures. This is not the case for the European Community as the following shows.

12. The Community's anti-dumping rules were adopted in accordance with existing international obligations, in particular those arising from Article VI of the GATT and the 1979 Anti-Dumping Code. In applying these rules the Community seeks to maintain the balance of rights and obligations laid down in GATT.

13. It is often thought that anti-dumping activity has increased significantly in recent years. Within the Community, the number of cases resulting in definitive measures has increased a little in the last two years but the average over the last decade has only been 19 per year, which is not unduly high for a trading bloc of the size of the Community with its extremely low tariff and non-tariff protection for industrial goods. In any event, whatever the number of cases being investigated or the number of measures affecting imports at any given time, the fact remains that only about 0.5 per cent of total imports is covered by anti-dumping duties. Therefore, the impact of Community actions in this area should not be exaggerated.

14. As can be seen from the points listed below, the Community's anti-dumping practice is in many respects more liberal than that of our other Parties to the Code :

a) The amount of anti-dumping duties imposed is often less than the dumping margin. This occurs where a lower duty is considered sufficient to remove the injury caused by the dumped imports and this has been the case in nearly 50% of cases over the last five years;

b) Traditionally, a large number of anti-dumping investigations in the Community are terminated by the acceptance of price undertakings. This outcome is more favourable to exporters as it permits them to continue exporting at "fair" prices without incurring the extra cost of the anti-dumping duties. In the last five years, 30% of cases, mainly involving East European countries, have been concluded by undertakings. It has to be stressed, however, that undertakings are only accepted after dumping, injury and causality have been determined.

c) Before adopting anti-dumping measures, the Community institutions must examine, after having determined that injurious dumping took place, whether it is in the interest of the Community to take protective measures. When making this examination the interest of the Community industry is weighted against those of the importers and users of the dumped products. It is true that, up to now, there are only a small number of cases where public interest has led to no measures being imposed. However, the influence of the public interest requirement has made its most important manifestation in the form of the "lesser duty rule". In fact, in practical terms, public interest and consideration of the level of duty necessary to remove the injury often overlap.

d) All anti-dumping measures lapse after a five-year period unless the expiry of these measures would lead again to injury or threat of injury. Since the introduction of the "sunset clause" in 1985 the number of measures in force has been reduced significantly. This practice shows that the Community offers protection only as long as its industries really need it.

15. Dumping, of course, is only possible because of the lack of integration of international markets. Where markets are not segmented, but highly integrated like the United States and within the Community, dumping or price discrimination is impossible. In fact, in these relatively open markets, there is a heavy and legally binding emphasis placed on the prevention or elimination of market segmentation (which is the prerequisite for differential pricing) and the effective implementation of competition rules, both of which ensure free and fair trade and a level playing field for the goods which are produced and sold there.

16. In open single markets, however, imports are also present and though they may be on the same level playing field as domestic goods once they have physically arrived in the importing country this in no way guarantees fair play, given that the production and actual sale of the product took place outside the scope of the rules applicable in the playing field. The imports may well have been produced in a trading environment where the principles of free and fair trade are not paramount and therefore this may be more important in determining the level of the export price of the goods than the trading situation in the country of destination.

17. With these imperfections in international markets, exporters are not bound by market forces to price in relation to real comparative advantage in either their own or the export markets, a privilege which through "single market" laws and competition rules is denied to producers in competitive and integrated markets on the grounds that denial is in the long-term interest of free and fair trade and ultimately consumers. Not only for reasons of non-discrimination but also to ensure a level playing field, this denial must be extended to cover imports and for the foreseeable future this can only be done by counteracting the unfair import prices through effective anti-dumping action. For the Community, this is all the more necessary as the size and accessibility of its market makes it a prime target for dumping practices.

S E C T I O N III

FRAMEWORK FOR EVALUATION OF

COMMERCIAL POLICIES

CHAPTER III.1 EXTERNAL ECONOMIC ENVIRONMENT

III.1.1. An unfavourable international economic environment

1. The rate of growth of world trade(1) in volume terms over the past two years (1991-92) has fallen compared with the very strong expansion recorded during the 1987-89 period. This is attributed to the cyclical slowdown in industrialized countries and the collapse of trade between the ex-command economies. Nonetheless, growth rates of 3.1% and 4.3% for merchandise trade volumes for 1991 and 1992 respectively are well above those recorded for economic growth, implying ever greater global economic interdependence. The Community, despite being the largest economic grouping and trading partner in the world, is increasingly dependent upon a sound international economic environment to secure higher levels of economic growth.

2. The sluggish global economic performance has continued into 1992, in part caused by ongoing balance sheet adjustments to redress previous speculation in real estate and other asset markets. At present, the risks are perhaps greatest in some European countries, especially considering the exchange rate turmoil which has persisted since early autumn 1992. In Japan, several difficulties remain, namely instability in financial markets and the necessary balance sheet adjustments which began later in Japan than elsewhere. There are, however, clear signs of a gradual upturn in the US resulting from low interest rates and a relatively strong export performance.

3. Despite the cautious estimates for economic growth over the coming number of years, forecasts for growth in trade (volume terms) are on a significantly upward trend. In January 1993, the Commission forecasts merchandise trade volumes to increase by 4.4% in 1993 and 5.4% in 1994. In addition current balances as a percentage of GDP would stabilize in 1993 at approximately their present level, i.e. US -1.0%, Japan +3.3%, Germany -1.1%. For the Community as a whole, there would be a marginal increase in the current account deficit to -0.9 of GDP.

4. The recent turbulence within the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) may have an impact upon trade flows both inside and outside the Community. Much depends upon the evolution of relative unit labour costs as they impact on the real effective exchange rate. It is estimated, for example, that Germany has experienced an exchange rate appreciation of some 10% since 1987 against its ERM partners. For the UK, the depreciation of 15% between the second and fourth quarters of 1992 broadly corresponds to the cumulative increase in its relative costs since 1987. The depreciation in Italy of approximately 9% during the autumn of 1992 has, however, more than compensated the net competitive losses incurred since 1987. Finally for Spain, the 7% devaluation of the peseta has only partially reduced the substantial net losses in competitiveness (over 20%) that have occurred since 1987.

(1) Arithmetic average of the growth rates of the world import volume and the world export volume.

III.1.2. <u>Trends in the Community's imports from and exports to third countries</u>

5. During the late eighties and through 1991, EC imports from third countries increased at a fast pace, the Community's rate of growth being one of the highest in the world. Until 1990, EC imports were boosted by strong internal demand, particularly in investment goods and in 1991 by the impact of German unification. However, in most other member countries economic activity began to slow down. Nevertheless in 1991, EC imports in real terms rose by an estimated 7%, a rate which well exceeded estimated world trade growth during the same year.

In geographical terms the input data for 1991 show strong increases in imports from the four Asian NIEs, the ASEAN countries, China, Japan and the US. The exceptions to this trend were limited to imports from those partners whose exports to the Community consist mainly of "primary products".

The increase in EC imports was particularly significant in some sectors of manufactured products, like office and telecommunication equipment (from Japan, the four Asian NIEs, ASEAN and US); transport equipment (from Japan, as far as automotive products are concerned, and from the US for other transport equipment); and textiles and clothing (from China, ASEAN, the four Asian NEIs).

6. EC exports increased slightly in value terms in 1990 and 1991, against a background of a deteriorating international environment, with the main Community trading partners (EFTA countries, USA) entering a cyclical phase of economic recession or sharp slowdown in economic activity. At the same time, the continued strong growth in Japan in 1991 did not lead to any increase in Japanese imports (growth of imports of goods was halved), and Community exports to Japan declined sharply.

Community export developments were largely related to these demand fluctuations in its trading partners, with a drop in the EC exports to the US and the EFTA countries, as well as to Japan. At the same time Community exports to the four Asian NIEs, ASEAN and Latin America rose strongly, in line with the continued strong economic growth in the first two groups of countries, and as a reflection economic recovery coupled with trade liberalization measures in the third.

7. The particular political and economic situation in the Central and Eastern European countries and in the former USSR gave rise to a rapid development in trade flows with the Community, both in imports and in exports. Taking into account the improved access to the Community market and the economic development needs of those countries, together with the very slow recovery in intra-regional trade following the collapse of trade flows between ex-COMECON countries, as well as geographic proximity, it is clear that the enormous potential which exists for the development of trade between the EC and those two regions is being rapidly translated into practice.

8. The increasing deficit in the EC trade balance reflected the diverse developments in Community trade flows and in particular its falling exports.

Despite a slight improvement in terms of trade, the EC trade deficit increased sharply by ECU 24 billion to - ECU 70 billion (fob-cif), a level equivalent to the trade deficit of the United States.

The geographical breakdown of Community trade in 1991 shows that EC bilateral trade balances deteriorated sharply in most cases, in particular the trade deficits with the US (increased by ECU 12 billion to - ECU 20.5 billion) and with Japan (increased by ECU 6 billion to - ECU 29.7 billion). This continued to be the highest bilateral Community deficit. Deficits were also recorded with China and other East and Southeast Asian countries. In its trade with EFTA, the long-standing EC trade surplus was converted to a deficit in 1991, while EC trade surpluses with the Mediterranean and South Asian countries shrank.

In contrast, the Community trade balance with Central and Eastern European countries shifted to a surplus in 1991 (despite the rapid increase in Community imports from them), while the trade surplus with the Gulf States doubled and the deficits with Latin America and former USSR were reduced.

9. More recently, in the first six months of 1992, the growth in value terms (ecus) of Community imports (+ 0.9%) sharply decelerated, and, in real terms, EC imports appear to have declined slightly as a result of the slowdown in the European economy.

There was also a sharp drop in the value of imports from the Mediterranean countries (- 6%) and Latin America (- 5%) as a consequence of the overall decline in imports of primary goods together with tougher competition from Asian countries in products like textiles and clothing and the fall in import prices. Exchange rate and import price developments appear to be the main causes behind the growth of imports from Japan (+ 4%) and the stagnation of EC imports from the US and the four NIEs of Asia.

Meanwhile, Community imports from the Central and Eastern Europe, China and ASEAN rose substantially more than the average by 19%, 17% and 10%, respectively.

10. The growth of EC exports, which started to recover during the second half of 1991, slowed down both in value and in volume terms in the first half of 1992. This development is largely related to the severe economic situation in the EFTA countries (the main export market for the EC), in the Mediterranean countries and in Japan. EC exports to those three partners, which in 1991 absorbed 42% of Community exports, declined both in volume and in value in the first half of 1992.

Community exports to the US increased by 7% in value (Ecus), largely as a result of exchange rates and export price developments, while in volume their growth slowed down in the first half of 1992 compared with the second half of 1991. The increase in EC exports to the US appears to be significantly lower than the inroads into the US market achieved by others, mainly the countries of East and Southeast Asia and Latin America. Despite an increase of ECU 2.3 billion, EC exports to the US during the first six months of 1992 were still 8% behind the value recorded two years ago.

EC exports to Latin America, East and Southeast Asia and to the Central and Eastern European countries grew at above average rates, continuing the trend set in 1991, as did exports to the Gulf States.

11. The net effect of the decline in the volume of imports and the slight increase in exports, together with an improvement in the Community terms of trade, was a reduction in the EC deficit of 18%, taking the absolute figure to - ECU 35.6 billion.

In the first half of 1992, the biggest reductions in the Community's deficits with its various trading partners were recorded in trade with the United States, Latin America and the four Asian NIEs. The deficits with Japan, EFTA, and China continued to increase. At the same time, the existing trade surplus with the Mediterranean countries rose from ECU 0.3 billion to ECU 1.6 billion, while that with the Gulf States increased threefold, to ECU 3.2 billion. The trade surplus with Central and Eastern Europe, established in 1991, shrank by ECU 0.4 billion.

III.1.3. The trend towards regional integration

12. It is self-evident that regional integration has been one of the major driving forces behind the growth of the EC economy and of its trade, both intra and extra, since the Rome Treaty was signed in 1958. Table B shows this trend extremely clearly in statistical terms: EC exports and imports in Western Europe have grown as a share of the total substantially between 1958 and 1990, while its trade with its Eastern and Southern neighbours and with the rest of the world has fallen. Within the overall picture, however, it is interesting to note that some of the preferential extra flows have not increased as much as the occasional excitement about regional trade arrangements might have suggested. As a proportion of total trade, imports from EFTA were stable over this period and exports to EFTA fell; both imports and exports from Mediterranean partners and the ACP fell substantially.

13. This table, of course, includes the intra EEC/12 trade flows which are of prime importance. The fact that these have expanded rapidly over the period shows that the regional integration effect, which is, after all, the raison d'être for entering into a customs union, has been effectively the main dynamic factor influencing the Community's trade in the period. Trade flows with the rest of the world have of course increased in absolute terms over the same period - it is simply that growth has been less rapid.

14. If one was to <u>exclude</u> the intra-EEC flows the picture would, of course, look very different. The share of other developed countries in EC imports, instead of apparently falling from 18% down to 13% over three decades, would rise from around 22% to over 28% (on the basis of the figures for USA and Japan only). The smaller the cake, the larger their share of it: that is clear. But the trend is the opposite of what it was in Table 1. This well illustrates the pitfalls that can arise with statistics, especially when data on the EC is being used.

15. It is often thought that this dynamic effect of regional integration is in some way antithetical to the growth of multilateral trade and that a set of inward-looking policy attitudes must inevitably develop. In reality the EC experience shows exactly the contrary: European integration was the main driving force behind the Dillon and Kennedy Rounds of multilateral trade negotiations which produced substantial tariff reductions.

- The process of EC integration in the 1960s was a catalyst in the reduction of Europe's external protection. This view seems to be shared by most authors. For instance, one US observer wrote(1): "France and Italy, in particular, would have strongly resisted making any trade concessions in the 1960s, and Germany would not have made trade concessions in isolation from its continental partners."
  Similarly, another comment was(2): "the first impact of the Treaty of Rome was to impose... [a] macro-economic environment [which] allowed the progressive opening of the French economy... As a result, the protection granted to the French manufacturing sector <u>vis-à-vis</u> both the Community and the rest of the world...decreased during the 1960s."

- The simultaneous lowering by the EC of its internal and external protection in manufacturing did not end with the Kennedy Round in the late 1960s. The first enlargement of the EC, in 1973, was followed by multilateral tariff cuts on manufactured goods during the Tokyo Round, which was completed in 1979. And the third enlargement, in 1986, was immediately followed by the launching of the still unfinished Uruguay Round.

16. At the end of the day, the evidence strongly suggests that the process of EC integration has been beneficial to both the Community itself and its trading partners. This favourable outcome is, to a large extent, due to the fact that integration has led to substantial multilateral trade liberalization, beyond what could have materialized without the EC. It has been noted(3): "The post-war experience of the EC is heartening. Increasing European integration after the Treaty of Rome was quite compatible with the lowering of Europe's external barriers." If the course of CAP reform runs smooth, and if the restrictive machinery of the MFA in the textiles sector is duly phased out after a successful Uruguay Round, then further integration will indeed have occurred in parallel with lower external protection.

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(1) Hufbauer, in "Europe 1992: an American perspective", Brookings. (1990).

(2) Messerlin, in "National Trade Policies", Handbook... Greenwood Press. (1992).

(3) Lawrence, Amex Bank Review prize essay, published by O.U.P. (1991)

III.1.4. **<u>The trend towards globalization (international investment and intra-firm trade)</u>**

17. The rapid globalization of economic activity which has been occurring in recent years and the ensuing reinforcement of interdependence between economies is one of the most important developments of the second half of this century. Economic interdependence has always existed to a certain degree. However, the technological advances of the last forty years or so and the ensuing increasingly global nature of production have resulted in a quantitative and qualitative change in the degree and nature of this interdependence. Sustained economic growth has become increasingly dependent on freedom to engage in economic exchange and other activities across national boundaries.

18. Foreign direct investment and the emergence of multinational and, increasingly, global private enterprises have played a key role in these developments. World FDI outflows in the previous decade grew at an annual average rate of almost 30%[1], more than three times the rate of world exports and four times as fast as world gross domestic product. Furthermore, if one takes into account the contribution to world trade of multinational companies, the importance of this area of international activity becomes even more evident.

19. The trend has also been reinforced by the proliferation of other, often more complex, forms of international alliances and link-ups between economic operators seeking to reduce costs, customize their products and spread the risks of producing goods or providing services in a rapidly changing technological and economic environment. This type of "networking" can be expected to gain in momentum with the further evolution of computer-aided production techniques and of communications and information transfer systems.

20. Foreign trade has also developed rapidly, at a higher rate than the growth of world output, contributing to, and reflecting, the self-reinforcing process of globalization. Moreover, its structure has undergone significant changes. The contribution of trade in manufactured products to total trade in value terms had grown from around 50% in 1960 to around 80% by the end of the eighties, while trade in services has been growing at a faster rate than GNP. A substantial part of world trade now consists of trade within multinational companies and trade in manufactured intermediate goods represents an important part of the trade of industrialized countries, as much as 50-70% for some major countries, illustrating the increasingly global nature of production.[2]

(1) This and most other figures in this section are from: <u>World Investment Report: The Triad in Foreign Direct Investment,</u> United Nations, 1991.

(2) These figures refer to Canada, France, Germany, UK and USA, derived from an OECD study : <u>"The International Sourcing of Intermediate Inputs."</u>

21. A large part of trade in intermediate products is the result of intra-company movements of such inputs within multinational enterprises. It is estimated that intra-firm trade accounts for around 30% of exports and up to 40-50% of imports of the US, Japan and the UK(1). The role of multinationals in promoting the expansion of trade is seen to be even greater if one looks at the total trade generated by these companies. The same sources estimate that multinationals generate exports accounting for at least 50% of exports from the US, 40% of Japanese exports and as much as 80% of UK exports. Overall, multinationals generate at least 40% of all world trade. At the same time, however, to the extent that their target is local market sales, they are also substituting potential trade flows by local production. Thus, it has been estimated that local sales of US subsidiaries in some of its major trading partners are greater (up to four or five times as great) than US exports are to these countries. Similarly local sales of foreign subsidiaries in the US are 1.5 times higher than total US imports.

22. The increasing globalization of economic activity has, in practice, invalidated traditional concepts of national interest, a fact that governments have been slow or reluctant to recognize. It has also placed severe limitations on the effectiveness of national policies and regulations. Moreover, traditional policy delimitations are becoming increasingly meaningless as the forms of activity undertaken by economic operators and the motives underlying these become more complex. Thus trade or industrial policy decisions, for example, which fail to take account of the fact that foreign direct investment often replaces trade or that networking arrangements can be a substitute for both forms of activity, are unlikely to prove effective. Furthermore, liberalization in this context means much more than maintaining an open trade regime. It means assuring a liberal regime for the whole range of transnational economic activity.

23. The case for broad-based economic liberalization and for developing multilateral cooperation in the face of the de facto changes brought about largely by private sector activity is overwhelming. Yet such cooperation has tended to lag behind the pace of developments, and OECD efforts to tackle capital movements and the issue of national treatment have been inadequate. While substantial steps have been taken in developing a multilateral trade regime, which will be further enhanced when the current Uruguay Round negotiations are completed, we are still far from establishing a multilateral/international framework equal to the requirements of today's economic reality.

(1) C.Michalet, "The Activities of Multinational Enterprises and their Effects on International Trade", OECD, July 1991, TD/TC/WP9(91)43.

24. It seems clear that increasingly ambitious forms of multilateral cooperation will have to be developed. Deriving the full benefits of economic liberalisation at the national level requires the establishment of effective multilateral ground rules for the various forms of international economic activity, as well as more successful macroeconomic coordination. It is in this context that the post-Uruguay Round agenda is likely to address the need to eliminate conflicts between trade and environmental policies, as well as the interactions between trade and competition policies, including some practices in the private sector. Policy evolution on these lines will increase the chances of keeping increasingly interlinked economies on a dynamic, self-reinforcing growth path.

CHAPTER III.2 STRUCTURE OF THE EUROPEAN COMMUNITY'S TRADE RELATIONS[1]

III.2.1. EC trade patterns compared with USA and Japan

Geographic composition of EC, US and Japanese trade

1. The Community is the world's largest trading entity, being a larger importer and exporter than either the US or Japan.

The share of the EC in world imports, excluding intra-EC trade, clearly increased during the last five years, accounting for 22.3% of the total world imports in 1991. At the same time, the share of the United States declined sharply to 17.8%, showing a reduction of almost 3 percentage points compared to 1987, and the Japanese share grew by 1 percentage point to 8.6%.

The share of the EC in world exports showed some fluctuations during this period and, after an increase to 20.9% in 1990, the EC share dropped to 20% in 1991. The share of the US in world exports showed an upward trend, growing by a substantial 2.7% percentage points, to 16.0%, and the Japanese share climbed back to 12%, after a reduction to 11.2% in 1990.

2. The main factors explaining the similarities and the differences in the geographic composition of EC, US and Japanese trade appear to be the level of economic development, geographic location, market access conditions and natural resources endowments.

Thus, for the EC, the US and Japan, the most important trading partners are (a) the other two members of the triad, (b) in the neighbouring geographic zones, (c) and, as far as imports are concerned, among the most important world suppliers of specific primary products.

3. As regards trade between the big three, the United States is the second main trading partner for the Community, after the EFTA group of countries. The share of the US in the EC imports is virtually unchanged since the late eighties (18.6% in 1991) whilst their share in EC exports declined by 1.6 percentage points to 16.8% compared to 1990. This is in the line with the reduction of the Community exports to the US, a development largely related to the economic recession in the United States.

4. Japan is in general the third biggest supplier of the EC, with a share of 10.5% in the Community's overall imports in 1991. This share is significantly higher than Japan's share of the Community's exports, which amounted to 5.2%. As a market for EC exports, Japan lags behind EFTA, the US, the Mediterranean countries and the four Asian NIEs (Hong-Kong, Singapore, South Korea and Taiwan).

(1) The figures mentioned in this section are based on the data reproduced in the "Statistical Annex" at the end of this Report.

For the United States, the Community became the third most important supplier in 1991, although it has been the top supplier in 1990. However, it remained the first export market for US exports, absorbing 24.5% of the total US exports in 1991.

Japan's share in US imports (18.7% in 1991, making Japan the first supplier of the US) is clearly higher than in the US exports (11.4% and a place of fourth export market after the EC, Canada and Latin America).

In the geographic composition of Japanese trade, the United States is at the same time the first supplier (22.7% of the Japanese imports in 1991) and the first export market for Japanese products (29.3% of the overall exports of Japan). However, the share of the US in Japanese exports has been on a downward trend since the late eighties and Japanese exports have been gaining ground in the EC and on the East and Southern Asian markets.

For Japan, the EC is the second most important supplier (13.5% of Japanese imports), however clearly behind the US, and the third export market (18.9%) after the US and the four Asian NIEs.

5. For the EC, the EFTA group of countries is the main trading partner, despite a reduction of its share in the Community trade in 1991. The EFTA countries are at the same time the most important supplier and the main export market for the Community, accounting for 22.4% of the EC imports and 25.4% of the EC exports in 1991.

The Mediterranean countries also account for significant shares in the Community's trade. In 1991, this group of countries supplied almost 9% of the EC imports, which places them as the fourth supplier in the Community, and absorbes 10.8% of the EC exports (third export market), more than twice the share of Japan.

The shares of the EFTA group of countries and the Mediterranean countries in EC trade greatly exceed their shares in the trade of the US and Japan. In fact, both for the US and Japan, these two groups of countries are small suppliers and small export markets.

6. For the United States, the neighbouring import trading partners are Canada and, to a lesser extent, Latin America. In 1991, Canada and Latin America have been the second and the fourth suppliers and the second and third export markets for the US.

As regards Japan, the four Asian NEIs and the ASEAN Countries represent, together with the US and the EC, the most important source of imports and the most significant markets for exports.

Moreover, the shares of the four Asian NIEs in world trade increased during the eighties, and they became significant trading partners for both the US and the EC.

Furthermore, in the geographic composition of Japanese imports, and in line with the oil import requirements, the Gulf States have a strong position (10.5% of the overall imports of Japan in 1991), with a substantially higher share than in EC and US imports.

7. During the early nineties, the development of trading relations with the Central and Eastern European Countries resulted in a rapid increase of their shares in EC trade. At the same time, the strong growth of imports from China has boosted the position of this country as a supplier of the EC, US and Japanese markets. Finally, the share of Latin America as a market for US exports developed fast during this period, particularly on account of the rapid growth in US/Mexico trade.

Commodity pattern of EC, US and Japanese trade

8. The product composition of EC trade, while nearer to that of the US than to that of Japan, does, nevertheless, show substantial differences from the structure of the trade of both trading partners.

Despite the decline of the share of primary products in the structure of the imports of all three trading partners, largely related to the fluctuations in the international prices of these products and to a stronger growth of trade in manufactured products, Japan continues to be mostly an importer of primary products. The latter amounted to 54% of overall Japanese imports in 1991.

9. For the Community, imports of manufactured products surpassed imports of primary products during the eighties. In 1991, EC imports of primary products dropped to less than one third of Community total imports.

The imports of the United States have traditionally always been more concentrated in manufactured products than both EC and Japanese imports. The share of these products in US imports increased strongly during the seventies and the eighties, reaching three quarters of total US imports in 1991.

10. On the export side, the EC, the US and Japan are, essentially, exporters of manufactured products. The share of manufactured products in the Community exports has exceeded 80% during the last decades, and it reached almost 87% of EC exports in 1991 (including miscellaneous products of SITC 9, SITC referring to the Standard International Trade Classification by the United Nations).

The US is an important exporter of primary products. Although the share of these products in US exports has been in a long-term downward decline, they still accounted for 19.5% of US exports in 1991.

Japanese exports are almost entirely made up of manufactured products, with a heavy concentration in machinery and automotive products. The share of primary products has become very small, accounting for only 2.3% of total Japanese exports in 1991.

III.2.2. The Community's trade policy vis-à-vis the developing countries

11. The fundamental features of the Community's trade policy vis-à-vis the developing countries have remained unchanged since the trade policy review of 1991. The Community continues to extend the most liberal market access conditions (duty-free treatment and no other restrictions for manufactures, preferences for agricultural products) to the 69 signatories of the Lomé Convention (3.9 per cent of total extra-EC imports in 1991). The Mediterranean developing countries (3.4 per cent of total extra EC-imports in 1991) benefit from similar preferences, while other developing countries (19.7 per cent of total imports) benefit only from tariff preferences under the GSP (duty-free concessions for manufactured and agricultural products, subject to limitations for sensitive products).

Moreover, the least developed countries eligible for GSP treatment receive additional GSP benefits, in particular for agricultural products. Lastly, in 1990 four ANDEAN countries (Bolivia, Colombia, Ecuador and Peru) were granted on a temporary basis GSP treatment similar to that accorded to the least developed GSP countries.

12. As regards the major changes since the last trade policy review, one notes the additional agricultural concessions granted to the Mediterranean countries (complete abolition of duties on CAP products from 1993 onwards and increased duty-free quotas for sensitive agricultural products); the reinstatement of Korea as a GSP beneficiary following the termination of discriminatory treatment by Korea to the Community in the area of intellectual property; and the temporary extension of improved GSP benefits (similar to the ANDEAN countries) to 6 countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama).

Recently GSP benefits have also been extended to other countries; Albania, the Baltic States, Croatia, Slovenia, Bosnia-Herzegovina and the Yugoslav Republic of Macedonia(1) are now all beneficiaries of the Community's GSP scheme. GSP benefits have been withdrawn from Yugoslavia, and also from Hungary, the Czech and Slovak Federal Republic, and Poland following the successful conclusion of the Europe Agreements with these last three countries.

(1) In the case of Croatia, Slovenia, Bosnia-Herzegovina and the Yugoslav Republic of Macedonia, for agricultural products only, as industrial products are now covered by an autonomous regulation replacing the earlier trade agreement with Yugoslavia.

13. Although EC imports from developing countries (defined in the traditional way) have been rather stagnant in dollar terms over the last decade ($186.3 billion in 1991 compared to $179.5 billion in 1981), owing mainly to falling oil prices and the weak prices of other commodities, imports of manufactures from developing countries have been very dynamic indeed; in 1991 these amounted to $84.1 billion compared with only $25.9 billion in 1980, equivalent to an annual volume increase of more than 8 per cent. As a result of these developments the share of primary products in total EC imports from developing countries has fallen from 84.0 per cent in 1980 to 53.3 per cent in 1991. It should be noted that the greatest increases in imports of manufactures from developing countries have occurred from countries to which the Community accords the least favourable preferential treatment, i.e. the countries of South East Asia. From the four NIEs (Hong Kong, Singapore, Taiwan and Korea) plus Indonesia, Malaysia and Thailand the Community imported in 1991 $50.9 billion worth of manufactures, compared to $13.0 billion only in 1980. This suggests that trade preferences play a limited role in the export success of a country.

CHAPTER III.3 PROBLEMS ENCOUNTERED ON EXTERNAL MARKETS

III.3.1. Barriers to trade in the United States

1. The trade volume between the European Communities and the US has augmented from ECU 145 billion in 1985 to ECU 181 billion in 1991. Similar growth has been registered in the field of direct investments, the accumulated value of which has grown since 1987 by more than one third from almost US $290 billion to around US $420 billion in 1991. The European Communities and the US have thus grown to become each other's largest single economic partner. Nevertheless, it is to be observed that the US maintains a considerable number of discriminatory practices and legislative provisions which impede and distort trade and which undermine the multilateral trade regime itself.

2. A wide range of products exported from the EC are still subject to high US tariffs up to almost 50%. Such high tariffs reduce EC access possibilities for these products. In addition, imported products are subject to ad valorem user fees which in practice result in a price disadvantage for these products in relation to domestic products. Finally, the US keeps up quantitative restrictions for certain agricultural products. Although these restrictions are still covered by a GATT waiver and a headnote to the Customs Tariff, they restrict EC exports to the US and have a considerable negative effect on world markets.

3. The major non-tariff barriers to trade in the US may be associated with the problem areas of unilateralism, extrajurisdictionality, public procurement restrictions, and the fragmentation of the US market.

a. Unilateralism as a characteristic element of US trade legislation, e.g. notably section 301 of the 1974 Trade Act as amended by the Omnibus Trade and Competitiveness Act in 1988, includes provision for unilateral sanctions or retaliatory measures against offending countries or natural or legal persons on the basis of a US judgement of the legislation or behaviour of a third country or party. Such an approach appears incompatible with the letter and the spirit of GATT, and it undermines the efforts to build up the kind of multilateral cooperation called for by growing international economic interdependence.

b. US legislation in trade-relevant areas to some extent features an **extrajurisdictional scope**. In these cases, non-compliance with US standards, requirements or prohibitions by third countries or economic operators located outside the US may result in unilaterally imposed trade sanctions or other disadvantages for offenders. A recent example of such legislation is the Cuban Democracy Act of 1992 with which all trade with Cuba, even for US owned or controlled subsidaries in third countries, is prohibited and, in case of violation, sanctions are foreseen. The extraterritorial application of US laws contributes to serious jurisdictional conflicts between the US and the Community. It has also a negative influence on the climate for trade and investment between the US and the Community.

c. **Public procurement restrictions** appear in the form of 'Buy American' provisions and to some extent in the form of measures ostensibly justified by National Security provisions. Considering that procurement worth around US $ 180 billion is restricted through these provisions, their proliferation and variety are of growing concern to the Community. In addition, the shift in the financial and procurement responsibilities from the Federal Government to State and Local Governments, as a consequence of Federal budgetary policy, has further increased the importance of State and Local Government activities. The detrimental effects of 'Buy American' provisions in public procurement for Community exporters have thus been aggravated.

d. The growing **fragmentation of the US market** is increasingly creating market access difficulties for Community exporters. Intensified but often divergent regulatory activity by the States in areas such as standards, environmental protection, or taxation, not only leads to a lack of transparency, but also puts exporters to expense in obtaining the necessary conformity assessments or certificates. Furthermore, in some areas there are concerns as to whether the US Federal authorities will be able to ensure compliance with international trade agreements at State level. This is particularly of interest in sectors which are dealt with by the GATT Uruguay Round negotiations, notably subsidies, public procurement, standards and services.

III.3.2. Barriers to trade in Japan

4. The Community's trade deficit with Japan has increased very significantly over the last two years. This deficit reflects in particular the difficulty of penetrating Japan's market owing to the existence of structural and other barriers to imports.

The main difficulties encountered in obtaining access to Japan's market are still of a structural nature, since the basic problem remains the lack of competition and market mechanisms in many areas. Examples of this are the distribution systems, and particularly the restrictive provisions of the law on department stores, the interaction between industrial groups ("Keiretsu"), inter-firm vertical integration models and the resulting distribution methods, and the difficulties encountered by foreign firms in participating in mergers and take-overs in Japan.

5. In addition to the structural barriers, the main import barriers which Community exporters have to overcome are as follows:

- high customs duties on many agricultural products (in particular cheese, processed pigmeat, confectionery and certain spirits) and also on industrial products (leather and leather shoes outside the tariff quota, synthetic menthol, copper and ferro-nickel);

- for processed agricultural products, non-tariff measures which come into the category of plant health, veterinary or health measures (e.g. refrigeration of fruit, zero insect tolerance for cut flowers and live plants, radioactivity checks, additives, etc.);

- quantitative restrictions and import quotas, e.g. for certain fishery products or agricultural products (milk, cream, starch or inulin);

- administrative procedures: labelling (e.g. indication of date of manufacture or import), standards and approval (e.g. delays in registration procedures or refusal to accept international testing standards and procedures), definition and classification of products (in the agri-food sector), administrative recommendations, restrictive system for granting licences, customs clearance conditions;

- a taxation system which is particularly unfair in the case of spirits;

- implementation of tendering procedures in the case of public procurement;

- a double-pricing system for copper and titanium sponge.

Furthermore, intellectual property is not adequately protected (in particular as regards protection of patents and registered trade marks and the control of counterfeit activity.

There are still restrictions on access for foreigners to the legal profession (in particular the number of years of experience required before this profession can be exercized), on the use of the name of the parent firm and on arbitrage.

6. The Community is giving priority to securing greater access to and more liberalization in the Japanese markets in the financial services sector. In particular, priority attention is given to the following:

- openness and transparency of the financial markets,
- conditions of the insurance market,
- regulations affecting the management of pension funds by investment managers,
- procedure for the award of investment trust management licences.

The Community has noted the recent indications that the process of financial services sector deregulation may not proceed quite as fast as originally expected. However, the Community still sees the Uruguay Round as providing an opportunity for seeking commitments on greater liberalization from Japan.

III.3.3. Import restrictions in the developing countries

7. About one third of the Community's exports are sold in the markets of the developing countries; this shows the importance of the markets of developing countries for the Community's economy. Almost 50 per cent of these exports consist of engineering products; chemicals (12.8 per cent in 1991) and food (9.3 per cent) are the next most important groups of export products.

8. The Community is also the largest supplier of markets of the developing countries, with a share of about 21 per cent (1991), compared to 17 per cent for the United States and 15 per cent for Japan.

9. In recent years there have been an encouraging trade liberalization trend, particularly in a number of Latin American countries (Chile, Mexico, Bolivia etc.). Progress in trade liberalization has been much slower in a number of the successful exporting countries of South East Asia, while other countries (India is an example) have only more recently introduced trade liberalization measures. It is quite clear that sustaining the process of trade liberalization in the developing world can give a considerable impetus to world trade and growth.

10. Despite an encouraging trade liberalization trend in many developing countries, market access barriers remain high in these countries, often to the detriment of the country concerned, as well as to the detriment of Community exporters. Although tariff barriers are important in most developing countries, non-tariff barriers constitute in general a much more serious market access barrier. Quantitative restrictions, complicated import licensing systems, import monopolies, state-trading organizations, reference price systems, import surcharges, excessive service fees, etc., are examples of these. Moreover, these measures are often applied in combination with each other, which either adds considerably to the landed costs of these imports or can even virtually prevent the import of certain goods. Foreign exchange restrictions and the fact that many developing countries have only bound a small part of their tariffs and non-tariff barriers are additional factors injecting elements of uncertainty in the international trading system, affecting adversely importers and exporters alike. It is for this reason that the Community encourages developing countries to make their trade regimes more predictable, preferably through binding their trade concessions in the GATT and more transparent, preferably through the tariffication of non-tariff measures. The latter has the added advantage that the revenues associated with import protection accrue to the Government treasurer.

11. While import protection might be justified in certain cases, it should be noted that import protection is particularly unjustified in sectors in which countries have become internationally competitive. This is in particular the case in textiles and clothing, where many developing countries continue to have trade barriers, despite the existence of a highly competitive export industry. In this regard it is illustrative to note that in 1989 out of a total of clothing exports worth US $ 43 billion from the developing countries, only 6 per cent was exported to other developing countries. This figure is particularly striking if one realizes that, of the developing countries' total manufactured exports, 27 per cent is south-south trade.

III.3.4. Export restrictions

12. The Community has preoccupations with export restrictions and other measures affecting exports of raw materials aimed at maintaining or according preferential treatment in favour of domestic processors to the detriment of external potential buyers of the products or commodities in question. Such practices often have an effect similar to a subsidy and are equally often destined to stimulate exports of manufactured products and have a distortive impact on trading relationships. Double-pricing practices are made effective through the application of export duties, taxes or other charges, export restrictions or export prohibitions. Export restrictions are not considered to comply with GATT requirements unless qualifying for exemptions under Article XI:2(a) (critical shortages of foodstuffs), Article XX (in specific situations covered by (g) or (j)) or Article XXI (national security). Frequent recourse to these facilities warrant closer scrutiny of the grounds invoked. Furthermore, the other above-mentioned measures do have a harmful impact on the development of trade.

13. A logical linkage can be seen to exist between such measures and the occurrence of tariff escalation in the importing countries. This duality of limitation in access to resources and access to markets is felt to be a vicious circle particularly in the area of Natural Resource Based Product (NRBP) which may be considered to be of special interest to a number of LDCs. Certain countries are tempted to restrict exports of prime commodities in order to develop their own domestic processing industries whereas other countries are induced to apply or maintain higher tariff barriers according to the degree of manufacturing or processing of the products in question.

14. The sector of NRBP trade is being increasingly affected by a proliferation of non-tariff measures on an ever greater number of products aimed at providing a competitive edge to domestic operators at the expense of foreign competitors and to the detriment of the development of international commercial transactions. In order to maintain price differentials to the advantage of the domestic industry a number of restrictive practices, often encouraged or in any case condoned by governments, are being applied. Such measures include, inter alia:

- supply of raw materials to the local industry at lower prices than those on the world market,

- export restrictions on raw materials,

- differential export taxes applied to raw materials and to processed products.

15. The term double-pricing is often used to refer to such programmes or actions aiming at establishing lower domestic prices for natural resource products than would otherwise have been dictated by the application of market forces.

Policies of this kind appear to be especially prevalent in relation to raw materials and other products which are inputs for further processing, thus transferring an economic advantage to the processing industry in the country concerned. Where these products are in short supply in the world market this can lead to substantial increases in costs for industries in other countries and even to their elimination.

16. Product sectors where such measures are most often encountered include:

- <u>minerals and metals</u> (such as copper, nickel, zinc, lead) where measures are applied to ores and concentrates, and to residues and ashes and waste, and to the metal in unwrought form. Measures include export restrictions and discretionary export licensing, as well as double pricing and differential exchange rates. For both <u>titanium sponge</u> and <u>molybdenum</u> double pricing practices are common.

- <u>hides and skins</u>, where measures such as export restrictions and export taxes are widespread.

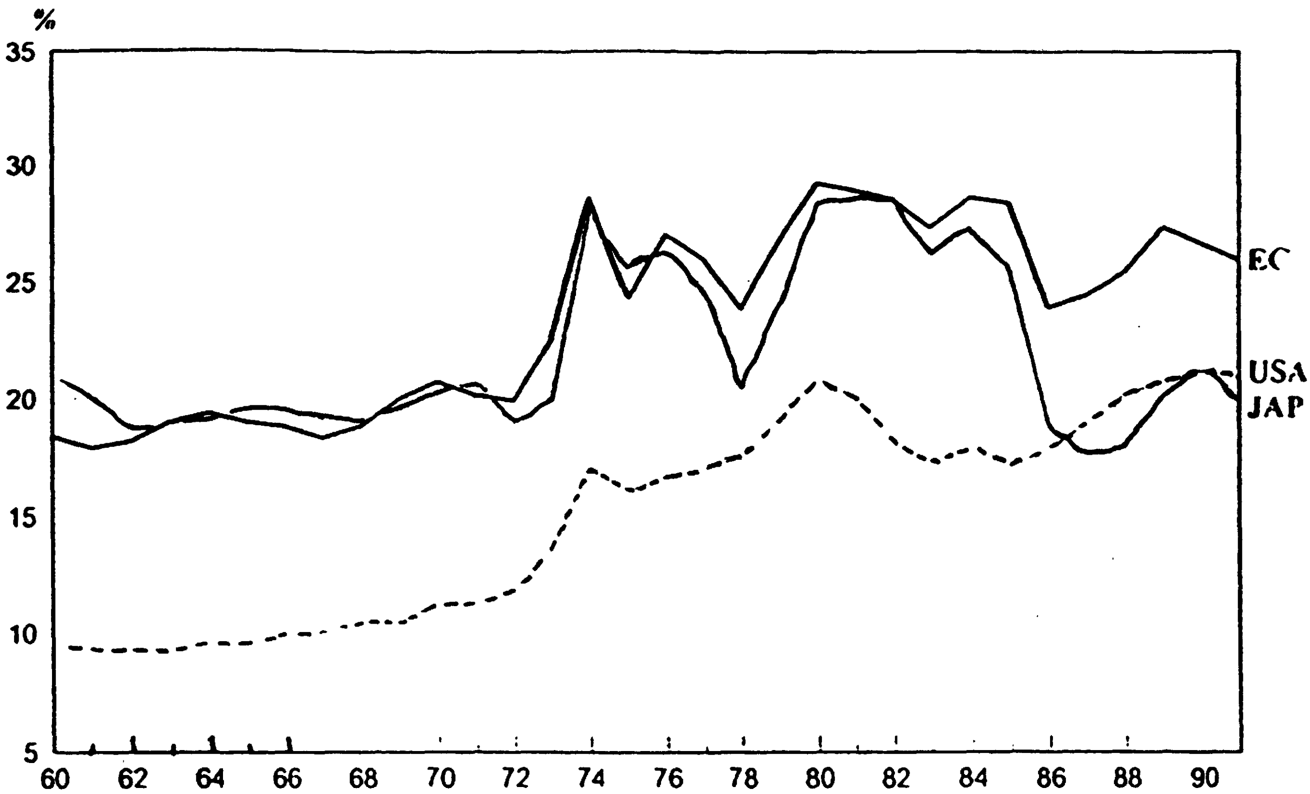
- <u>raw cotton</u>, subject to double pricing and to export taxes as well as discretionary licensing.

- raw sisal fibres which attract export taxes and minimum export prices.

- wood products (sawn/rough wood and logs) face export taxes and restrictions, and specifically rattan products are subject to export prohibition.

GRAPH A

Trade* in goods and services as a percentage of GDP (current prices)

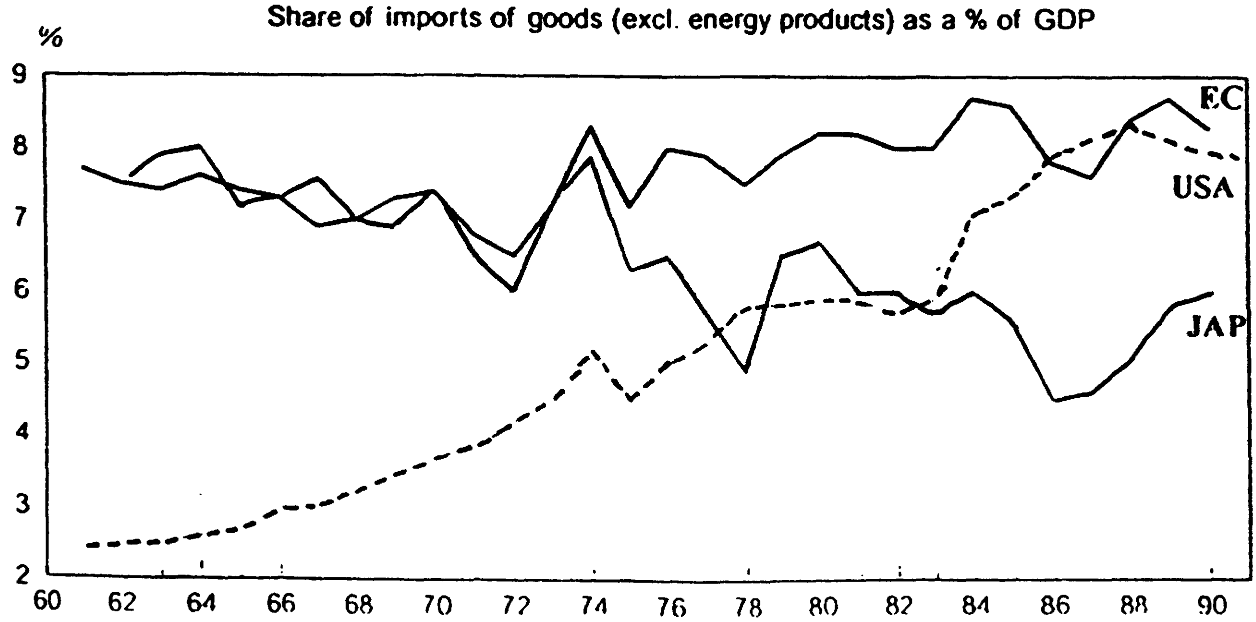


* *Exports plus imports at current prices. Trade in services apportioned between extra - and intra - EC in the same proportion as trade in goods.*

Source : Commission services.

GRAPH B

Share of imports of goods (excl. energy products) as a % of GDP



GRAPH C

Number of lines by duty ranges (imports EC '88)

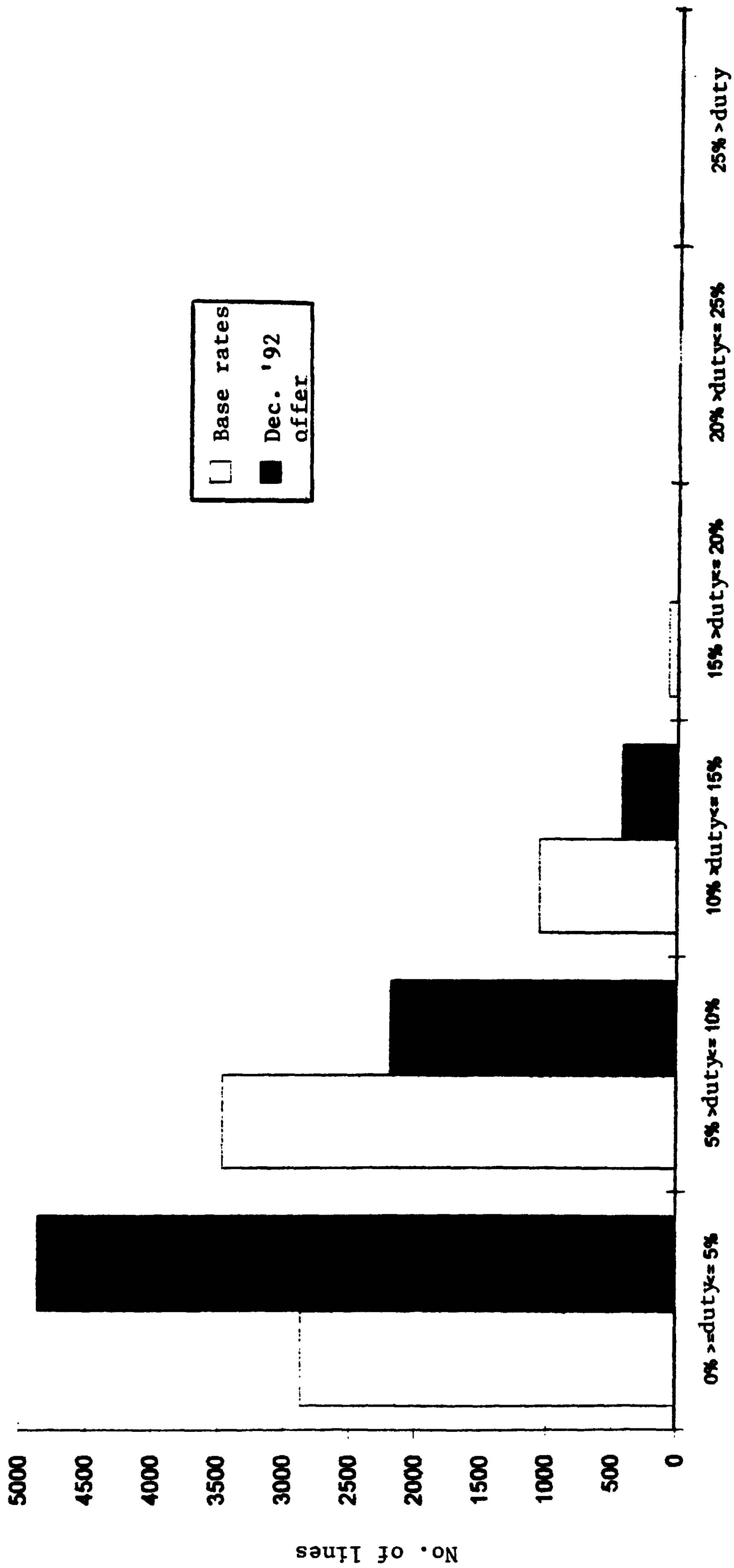


Table A Community trade by major group of countries

IMPORTS

(percentages and billion ecu)

Year	Industrialized countries					Developing countries					STCs of*	Eastern	Total
	USA	Japan	EFTA	Other	Total	Latin America	Mediterr. Basin	Asian NIEs	ACP	OPEC	Asia Amer.	Europe	extra-EC
													bn ecus
1970	21.7	3.4	17.4	12.1	54.6	7.9	9.4	1.5	8.9	16.3	0.8	6.4	61.8
1975	17.6	4.2	15.6	8.3	45.7	5.7	7.5	2.4	7.4	27.9	0.9	6.9	132.9
1980	16.9	4.9	17.0	7.3	46.1	5.8	8.3	2.2	7.3	27.2	0.9	7.3	282.5
1985	17.0	7.0	20.2	8.0	52.1	7.3	10.9	3.5	7.5	17.8	1.4	8.4	406.6
1986	16.9	9.9	23.5	8.6	59.0	6.0	8.5	4.9	5.9	11.5	1.7	7.4	334.6
1987	16.5	10.2	24.3	8.2	59.2	5.7	8.6	6.0	4.9	10.3	1.9	7.2	340.1
1988	17.6	10.7	23.4	9.9	61.6	5.9	7.8	6.3	4.5	8.2	2.2	6.4	387.9
1989	18.7	10.4	23.0	8.6	60.6	5.8	8.3	6.0	4.4	9.1	2.4	6.5	446.7
1990	18.4	10.0	23.5	7.9	59.7	5.5	9.1	5.7	4.3	9.7	3.2	6.8	462.7
1991	18.6	10.5	22.4	7.9	59.4	5.2	8.8	6.2	3.9	9.5	3.2	7.0	493.9

EXPORTS

Year	Industrialized countries					Developing countries					STCs of*	Eastern	Total
	USA	Japan	EFTA	Other	Total	Latin America	Mediterr. Basin	Asian NIEs	ACP	OPEC	Asia Amer.	Europe	extra-EC
													bn ecus
1970	18.0	2.6	25.1	13.6	59.3	6.7	10.3	2.1	7.6	7.5	1.5	7.3	54.2
1975	11.9	2.0	22.4	11.9	48.1	6.6	14.1	2.0	7.5	16.4	1.6	10.3	118.5
1980	12.8	1.0	25.5	10.3	49.6	6.1	13.4	2.7	7.9	18.1	1.2	8.0	216.7
1985	22.6	2.8	22.4	9.8	57.6	3.9	11.7	3.5	5.2	12.8	2.2	6.2	378.7
1986	22.0	3.3	25.5	9.6	60.5	4.0	11.2	3.7	4.8	10.3	2.2	5.9	341.9
1987	21.2	4.0	26.6	9.9	61.7	4.0	10.1	4.4	4.2	8.7	1.8	5.7	339.3
1988	19.8	4.7	26.6	10.1	61.2	3.6	9.8	5.4	4.3	8.6	1.8	5.7	362.9
1989	18.9	5.1	26.1	10.1	60.2	3.7	9.9	5.5	4.0	8.5	1.7	6.3	413.0
1990	18.2	5.4	26.5	9.6	59.8	3.6	10.9	5.5	4.0	8.4	1.5	6.7	419.8
1991	16.8	5.2	25.7	9.5	57.2	4.1	10.8	6.2	3.8	9.3	1.5	7.5	423.5

* State trading countries of Asia and America

The country groupings are not mutually exclusive, thereby giving rise to some double counting of trade flows. OPEC includes Nigeria and Gabon whose trade flows also appear under the ACP. Turkey, the former Yugoslavia and Malta appear under the Industrialised Countries as well as the Mediterranean Basin.

The members of the country groupings are as follows

ASIAN NIEs: Hong-Kong, South Korea, Singapore, Taiwan

MED. BASIN: Ceuta & Melilla, Gibraltar, Malta, Yugoslavia, Turkey, Albania, Morocco, Algeria, Tunisia, Eygpt, Cyprus, Lebanon, Syria, Israel, Jordan

OPEC: Algeria, Libya, Nigeria, Gabon, Venezuela, Ecuador, Iraq, Iran, Saudi Arabia, Kuwait, Bahrain, Qatar, UAE, Indónesia,

EAST EUROPE: former USSR and GDR, CSFR, Hungary, Romania, Bulgaria, Albania, Poland

STCs OF ASIA & AMER.: Cuba, Vietnam, Mongolia, China, North Korea

Table B

The Regional Structure of EC-12 Trade, 1958 - 1990
(As percent of total EC-12 trade)

	Year	Partners: Western Europe			Eastern & Southern Neighbours				Rest of the World			
		EC-12	EFTA	TOTAL	Eastern Europe	Mediterranean Countries	ACP	TOTAL	Developing Countries	Industrial Countries	TOTAL	TOTAL
Exports	1958	37.2	12.2	49.4	2.7	7.8	6.6	17.1	15.3	18.2	33.5	100.0
	1965	49.6	13.0	62.6	2.9	4.8	4.4	12.1	9.4	15.9	25.3	100.0
	1970	53.4	11.7	65.1	3.4	4.8	3.6	11.8	7.1	16.0	23.1	100.0
	1975	52.4	10.6	63.0	4.9	6.7	3.6	15.2	9.6	12.2	21.8	100.0
	1980	56.1	11.2	67.3	3.5	5.9	3.5	12.9	9.2	10.6	19.8	100.0
	1985	55.2	10.0	65.2	2.8	5.2	2.3	10.3	8.7	15.8	24.5	100.0
	1990	61.2	10.4	71.6	2.3	4.2	1.6	8.1	7.3	13.0	20.3	100.0
Imports	1958	35.2	9.3	44.5	2.9	4.5	6.8	14.2	19.2	22.1	41.3	100.0
	1965	44.9	9.0	53.9	3.4	4.7	5.2	13.3	12.7	20.1	32.8	100.0
	1970	50.3	8.7	59.0	3.2	4.7	4.4	12.3	10.3	18.4	28.7	100.0
	1975	49.5	7.9	57.4	3.5	3.8	3.8	11.1	16.3	15.2	31.5	100.0
	1980	49.3	8.6	57.9	3.7	4.2	3.8	11.7	15.6	14.8	30.4	100.0
	1985	53.4	9.4	62.8	3.9	5.1	3.5	12.5	9.8	14.9	24.7	100.0
	1990	59.0	9.6	68.6	2.7	3.8	1.8	8.3	8.2	14.9	23.1	100.0

Source: Eurostat

TABLE A.1 - GEOGRAPHIC BREAKDOWN OF EC TRADE
"ALL PRODUCTS"

BN ECU

	ANNUAL FIGURES												FIRST SIX MONTHS OF 1992		
	IMPORTS				EXPORTS				TRADE BALANCES						
	1988	1989	1990	1991	1988	1989	1990	1991	1988	1989	1990	1991	IMPORTS	EXPORTS	BALANCES
EXTRA-EC	387.5	446.7	461.5	493.8	362.8	413.0	415.3	423.5	-24.7	-33.7	-46.2	-70.3	248.1	212.5	-35.6
UNITED STATES	68.3	83.7	85.2	91.7	71.8	78.0	76.5	71.2	3.5	-5.6	-8.6	-20.5	46.6	35.6	-11.0
JAPAN	41.6	46.3	46.2	51.8	17.0	21.1	22.7	22.2	-24.5	-25.2	-23.5	-29.7	26.5	10.1	-16.4
CANADA	8.4	9.8	9.4	9.9	10.1	10.7	9.3	9.3	1.7	0.8	-0.1	-0.5	4.8	4.3	-0.5
EFTA	90.5	102.6	108.5	110.7	96.4	108.0	111.2	108.9	5.9	5.4	2.8	-1.9	56.7	54.1	-2.6
CENTRAL/EASTERN EUROPE	10.5	12.2	13.0	16.2	9.4	11.6	12.1	17.7	-1.1	-0.6	-0.9	1.5	8.9	9.6	0.7
EX-USSR	13.0	15.2	16.2	18.5	10.1	12.6	11.2	14.2	-2.9	-2.6	-5.0	-4.2	8.1	6.9	-1.2
MEDITERRANEAN BASIN	30.2	37.2	42.3	43.5	35.4	40.7	45.6	45.8	5.2	3.5	3.3	2.4	20.5	22.1	1.6
LATIN AMERICA	23.4	26.5	25.6	26.2	13.7	15.7	15.6	18.1	-9.7	-10.8	-10.0	-8.1	12.5	9.5	-3.0
CHINA	7.0	9.1	10.6	15.0	5.8	6.4	5.3	5.6	-1.2	-2.8	-5.3	-9.4	8.1	3.0	-5.1
ASEAN	12.2	15.2	16.7	19.9	10.7	14.1	16.1	17.3	-1.5	-1.1	-0.7	-2.6	10.6	9.1	-1.6
4 NEI OF ASIA	24.6	26.7	26.3	30.5	19.7	22.9	23.3	25.7	-4.9	-3.7	-3.0	-4.8	14.5	13.3	-1.2
SOUTH ASIA	5.3	6.4	7.0	7.7	8.1	9.5	8.3	7.8	2.8	3.1	1.2	0.2	4.2	3.9	-0.2
GULF STATES	11.8	15.3	14.8	14.0	15.9	19.0	16.5	17.3	4.1	3.8	1.7	3.3	6.3	9.5	3.2
ACP	17.3	19.4	20.1	19.1	15.2	16.3	16.6	15.9	-2.1	-3.1	-3.5	-3.2	9.5	8.0	-1.5

SOURCE = EUROSTAT

TABLE A.2 - GEOGRAPHIC BREAKDOWN OF STRUCTURE OF TRADE
"ALL PRODUCTS"

	COMMUNITY				UNITED STATES				JAPAN			
	1988	1989	1990	1991	1988	1989	1990	1991	1988	1989	1990	1991
	IMPORTS (BN ECU)											
WORLD (*)	387.5	446.7	461.5	493.8	389.2	447.5	405.8	410.9	158.4	191.4	184.4	191.0
EC 12					75.3	80.6	75.0	72.2	20.4	25.7	27.6	25.8
UNITED STATES	68.3	83.7	85.2	91.7					35.8	44.1	41.5	43.4
JAPAN	41.6	46.3	46.2	51.8	78.8	88.1	73.1	76.7				
CANADA	8.4	9.8	9.4	9.9	68.9	81.2	73.6	75.6	7.0	7.8	6.6	6.2
EFTA	90.5	102.6	108.5	110.7	12.0	13.5	12.2	11.9	5.1	6.1	5.7	5.7
CENTRAL/EASTERN EUROPE	10.5	12.2	13.0	16.2	1.5	1.4	1.0	0.9	0.6	0.7	0.5	0.5
EX-USSR	13.0	15.2	16.2	18.5	0.5	0.7	0.9	0.7	2.3	2.7	2.6	2.7
MEDITERRANEAN BASIN	30.2	37.2	42.3	43.5	6.5	7.5	7.1	6.6	1.7	1.5	1.4	1.4
LATIN AMERICA	23.4	26.5	25.6	26.2	43.3	52.1	50.3	50.5	6.6	7.5	7.2	7.3
CHINA	7.0	9.1	10.6	15.0	7.8	11.7	12.8	16.4	8.3	10.1	9.5	11.5
ASEAN	12.2	15.2	16.7	19.9	18.5	23.6	22.4	24.5	19.0	23.4	23.0	25.6
4 NEI OF ASIA	24.6	26.7	26.3	30.5	56.2	59.6	49.6	50.0	21.1	24.6	20.4	22.0
SOUTH ASIA	5.3	6.4	7.0	7.7	3.9	4.7	4.2	4.4	2.2	2.5	2.2	2.5
GULF STATES	11.8	15.3	14.8	14.0	7.9	11.5	12.6	10.7	14.7	18.3	20.9	20.5
ACP	17.3	19.4	20.1	19.1	6.9	9.9	9.4	8.8	1.6	1.8	1.3	1.4
	EXPORTS (BN ECU)											
WORLD (*)	362.8	413.0	415.3	423.5	272.3	330.1	308.5	340.3	224.0	249.8	225.3	253.8
EC 12					63.1	78.6	77.0	83.3	39.9	43.7	42.3	48.1
UNITED STATES	71.8	78.0	76.5	71.2					76.3	85.0	71.4	74.3
JAPAN	17.0	21.1	22.7	22.2	31.7	40.4	38.1	38.8				
CANADA	10.1	10.7	9.3	9.3	59.4	71.0	65.1	68.7	5.4	6.2	5.3	5.9
EFTA	96.4	108.0	111.2	108.9	7.9	10.1	9.3	10.1	7.2	7.3	6.6	7.0
CENTRAL/EASTERN EUROPE	9.4	11.6	12.1	17.7	0.7	0.9	0.9	1.0	0.7	0.6	0.6	0.6
EX-USSR	10.1	12.6	11.2	14.2	2.4	3.9	2.4	2.9	2.6	2.8	2.0	1.7
MEDITERRANEAN BASIN	35.4	40.7	45.6	45.8	7.4	9.1	8.4	9.3	2.6	2.2	2.8	3.0
LATIN AMERICA	13.7	15.7	15.6	18.1	33.8	40.2	38.8	47.5	6.7	7.4	6.8	9.0
CHINA	5.8	6.4	5.3	5.6	4.3	5.3	3.8	5.1	8.0	7.7	4.8	6.9
ASEAN	10.7	14.1	16.1	17.3	10.6	14.6	14.9	16.8	18.1	23.6	25.9	30.4
4 NEI OF ASIA	19.7	22.9	23.3	25.7	28.8	34.9	32.0	36.8	42.1	47.9	44.5	53.9
SOUTH ASIA	8.1	9.5	8.3	7.8	3.3	3.7	3.1	2.6	3.3	3.4	2.7	2.9
GULF STATES	15.9	19.0	16.5	17.3	5.7	7.0	5.6	8.2	5.3	5.4	4.9	6.0
ACP	15.2	16.3	16.6	15.9	3.5	4.5	3.8	4.2	2.4	2.7	2.6	2.7

(*) EXTRA EC FOR THE COMMUNITY
SOURCES = EUROSTAT, UNITED NATIONS

TABLE A.3 - GEOGRAPHIC BREAKDOWN OF STRUCTURE OF TRADE
"ALL PRODUCTS"

	COMMUNITY				UNITED STATES				JAPAN			
	1988	1989	1990	1991	1988	1989	1990	1991	1988	1989	1990	1991
	IMPORTS (IN %)											
WORLD (*)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EC 12					19.3	18.0	18.5	17.6	12.9	13.4	15.0	13.5
UNITED STATES	17.6	18.7	18.5	18.6					22.6	23.0	22.5	22.7
JAPAN	10.7	10.4	10.0	10.5	20.2	19.7	18.0	18.7				
CANADA	2.2	2.2	2.0	2.0	17.7	18.1	18.1	18.4	4.4	4.1	3.6	3.3
EFTA	23.3	23.0	23.5	22.4	3.1	3.0	3.0	2.9	3.2	3.2	3.1	3.0
CENTRAL/EASTERN EUROPE	2.7	2.7	2.8	3.3	0.4	0.3	0.3	0.2	0.4	0.4	0.3	0.3
EX-USSR	3.4	3.4	3.5	3.7	0.1	0.2	0.2	0.2	1.5	1.4	1.4	1.4
MEDITERRANEAN BASIN	7.8	8.3	9.2	8.8	1.7	1.7	1.8	1.6	1.0	0.8	0.8	0.7
LATIN AMERICA	6.0	5.9	5.6	5.3	11.1	11.6	12.4	12.3	4.2	3.9	3.9	3.8
CHINA	1.8	2.0	2.3	3.0	2.0	2.6	3.1	4.0	5.3	5.3	5.1	6.0
ASEAN	3.1	3.4	3.6	4.0	4.8	5.3	5.5	6.0	12.0	12.2	12.5	13.4
4 NEI OF ASIA	6.3	6.0	5.7	6.2	14.4	13.3	12.2	12.2	13.3	12.9	11.1	11.5
SOUTH ASIA	1.4	1.4	1.5	1.6	1.0	1.0	1.0	1.1	1.4	1.3	1.2	1.3
GULF STATES	3.0	3.4	3.2	2.8	2.0	2.6	3.1	2.6	9.3	9.6	11.4	10.7
ACP	4.5	4.3	4.4	3.9	1.8	2.2	2.3	2.1	1.0	1.0	0.7	0.7
	EXPORTS (IN %)											
WORLD (*)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EC 12					23.2	23.8	24.9	24.5	17.8	17.5	18.8	18.9
UNITED STATES	19.8	18.9	18.4	16.8					34.1	34.1	31.7	29.3
JAPAN	4.7	5.1	5.5	5.2	11.6	12.3	12.4	11.4				
CANADA	2.8	2.6	2.2	2.2	21.8	21.5	21.1	20.2	2.4	2.5	2.3	2.3
EFTA	26.6	26.1	26.8	25.7	2.9	3.0	3.0	3.0	3.2	2.9	2.9	2.8
CENTRAL/EASTERN EUROPE	2.6	2.8	2.9	4.2	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2
EX-USSR	2.8	3.1	2.7	3.4	0.9	1.2	0.8	0.8	1.2	1.1	0.9	0.7
MEDITERRANEAN BASIN	9.8	9.9	11.0	10.8	2.7	2.7	2.7	2.7	1.2	0.9	1.3	1.2
LATIN AMERICA	3.8	3.8	3.8	4.3	12.4	12.2	12.6	14.0	3.0	3.0	3.0	3.6
CHINA	1.6	1.5	1.3	1.3	1.6	1.6	1.2	1.5	3.6	3.1	2.1	2.7
ASEAN	2.9	3.4	3.9	4.1	3.9	4.4	4.8	4.9	8.1	9.4	11.5	12.0
4 NEI OF ASIA	5.4	5.5	5.6	6.1	10.6	10.6	10.4	10.8	18.8	19.2	19.7	21.3
SOUTH ASIA	2.2	2.3	2.0	1.9	1.2	1.1	1.0	0.8	1.5	1.4	1.2	1.1
GULF STATES	4.4	4.6	4.0	4.1	2.1	2.1	1.8	2.4	2.4	2.2	2.2	2.4
ACP	4.2	3.9	4.0	3.8	1.3	1.4	1.2	1.2	1.1	1.1	1.2	1.1

(*) EXTRA EC FOR THE COMMUNITY
SOURCES = EUROSTAT, UNITED NATIONS

TABLE A.4 - PRODUCT STRUCTURE OF TRADE OF THE THREE MAIN PARTNERS WITH THE REST OF THE WORLD (*)

	COMMUNITY				UNITED STATES				JAPAN			
	1988	1989	1990	1991	1988	1989	1990	1991	1988	1989	1990	1991
						IMPORTS (BN ECU)						
ALL PRODUCTS	387.5	446.7	461.5	493.8	389.2	447.5	405.8	410.9	158.4	191.4	184.4	191.0
PRIMARY PRODUCTS	130.9	155.3	156.9	156.9	81.3	101.3	97.7	90.0	90.0	105.9	101.0	103.3
AGRICULTURAL PRODUCTS	54.6	57.6	55.9	56.9	27.6	31.7	28.4	29.1	38.8	44.5	37.8	40.8
MINING PRODUCTS	70.1	90.0	94.4	94.3	50.0	66.0	66.3	58.3	49.2	58.8	61.4	60.8
NON-FERROUS METALS	12.0	15.3	13.4	12.5	8.9	10.0	7.8	7.0	7.8	8.9	7.7	7.6
FUELS	47.4	62.1	70.0	71.4	37.3	50.9	54.0	47.3	32.9	39.8	45.1	44.5
PETROLEUM/PETR. PR.	*39.4*	*52.6*	*59.7*	*59.7*	*34.7*	*47.6*	*50.6*	*43.7*	*22.3*	*27.8*	*33.0*	*30.9*
NON-AGRICULT. RAW MATER.	6.2	7.7	6.6	5.7	3.4	3.6	3.0	2.5	2.0	2.5	1.8	1.6
MANUFACTURED PRODUCTS	228.6	267.6	281.1	311.7	297.1	333.2	294.8	306.9	63.3	80.3	78.6	83.5
MACHINERY	77.8	89.4	93.4	101.9	94.4	109.0	96.4	102.4	14.2	18.9	19.2	21.6
OFFICE/TELECOM. EQUIP.	39.8	44.6	45.6	50.2	48.6	57.4	49.8	55.5	6.4	9.0	8.8	10.3
POWER/NON-ELECT. MACH.	26.9	31.7	34.1	35.9	29.6	35.2	31.2	30.5	5.4	6.8	7.2	7.4
ELECT. MACH./APPARATUS	11.1	13.1	13.7	15.8	16.3	16.5	15.5	16.5	2.4	3.1	3.2	3.8
TRANSPORT EQUIPMENT	28.8	35.7	38.5	46.1	76.9	82.3	71.1	71.8	5.4	6.7	9.1	8.8
AUTOMOTIVE PRODUCTS	17.3	19.4	20.3	23.4	65.8	71.5	61.7	61.3	3.1	4.4	5.7	5.2
CHEMICALS	25.1	29.3	30.3	32.5	17.3	19.8	18.6	20.4	12.0	13.7	12.0	13.6
MEDICAL/PHARM. PROD.	3.7	4.4	5.0	5.8	2.7	1.9	2.0	2.5	2.2	2.5	2.2	2.5
PLASTICS	4.8	5.9	6.5	7.0	2.2	3.2	3.1	3.2	1.2	1.4	1.3	1.5
OTHER MANUFACTURED PROD.	97.0	113.2	118.9	131.2	108.6	122.1	108.7	112.3	31.7	41.1	38.3	39.6
TEXTILES AND CLOTHING	25.7	28.7	32.0	37.4	24.8	29.4	26.5	28.3	9.0	12.1	10.1	11.1
IRON AND STEEL	7.6	9.8	9.1	8.4	10.4	10.3	8.4	8.1	3.9	4.6	3.6	4.4
PAPER/ARTIC. OF PAPERS	11.1	12.4	13.0	13.6	7.4	8.1	7.1	6.8	1.0	1.1	0.9	1.0
NON-METAL. MIN. MANUF.	6.4	8.0	7.9	8.2	9.1	9.8	8.2	8.2	3.5	4.3	4.2	3.9
OTHER PRODUCTS	27.9	23.8	23.6	25.2	10.8	13.0	13.3	14.0	5.2	5.2	4.8	4.3
						EXPORTS (BN ECU)						
ALL PRODUCTS	362.8	413.0	415.3	423.5	272.3	330.1	308.5	340.3	224.0	249.8	225.3	253.8
PRIMARY PRODUCTS	48.4	56.6	56.2	56.7	59.6	71.8	65.5	66.4	5.3	6.1	5.6	6.0
AGRICULTURAL PRODUCTS	30.4	36.0	35.1	36.0	39.9	46.9	42.0	42.8	1.8	1.8	1.6	1.7
MINING PRODUCTS	16.2	18.9	19.4	18.9	14.9	19.4	18.9	19.0	2.5	3.1	3.0	3.1
NON-FERROUS METALS	5.6	6.6	6.0	5.6	3.2	4.3	4.2	4.7	1.7	1.9	1.8	1.8
FUELS	8.2	9.5	11.1	10.6	7.0	9.0	9.7	9.9	0.5	0.9	1.0	1.1
PETROLEUM/PETR. PR.	*7.4*	*8.5*	*10.1*	*9.4*	*3.2*	*4.4*	*5.3*	*5.5*	*0.3*	*0.6*	*0.9*	*0.9*
NON-AGRICULT. RAW MATER.	2.2	2.1	2.4	2.7	4.1	5.5	4.6	4.5	1.1	1.1	1.0	1.1
MANUFACTURED PRODUCTS	294.1	333.0	338.9	346.3	187.5	230.2	230.5	259.7	215.7	240.1	216.1	243.8
MACHINERY	88.9	101.8	107.4	111.0	75.3	90.8	88.7	98.8	95.5	108.2	96.7	110.5
OFFICE/TELECOM. EQUIP.	18.1	20.4	20.7	22.4	36.1	42.1	40.6	44.7	53.4	59.0	52.6	59.4
POWER/NON-ELECT. MACH.	56.5	65.0	69.6	70.0	28.4	36.3	35.1	39.4	29.2	34.8	30.9	35.5
ELECT. MACH./APPARATUS	14.3	16.5	17.1	18.6	10.7	12.4	13.0	14.7	13.0	14.3	13.2	15.5
TRANSPORT EQUIPMENT	50.4	56.2	57.8	59.8	45.3	52.2	54.7	62.5	61.6	67.6	62.6	69.6
AUTOMOTIVE PRODUCTS	34.7	37.3	38.7	36.8	23.1	25.2	25.6	28.5	52.4	57.2	52.0	56.9
CHEMICALS	44.4	48.0	48.2	50.9	26.8	33.5	31.0	35.1	11.8	13.3	12.4	14.0
MEDICAL/PHARM. PROD.	7.6	8.3	8.7	9.9	3.6	3.4	3.3	3.8	0.6	0.7	0.7	0.9
PLASTICS	9.1	9.4	9.1	9.5	5.4	7.2	7.1	8.4	3.4	3.6	3.4	3.8
OTHER MANUFACTURED PROD.	108.5	124.9	123.5	122.8	40.2	53.6	56.1	63.3	46.8	51.0	44.4	49.8
TEXTILES AND CLOTHING	19.6	22.8	23.6	23.7	4.5	5.6	6.0	7.2	5.2	5.5	5.0	5.7
IRON AND STEEL	14.9	16.8	14.2	14.2	1.8	3.1	2.7	3.6	13.0	13.4	9.8	11.0
PAPER/ARTIC. OF PAPERS	4.3	4.9	5.0	5.2	3.3	3.9	4.0	4.9	1.3	1.5	1.6	1.8
NON-METAL. MIN. MANUF.	13.6	15.8	14.8	14.9	2.9	3.3	3.6	3.8	2.4	2.7	2.5	2.8
OTHER PRODUCTS	20.3	23.4	20.1	20.5	25.1	28.1	12.5	14.3	3.0	3.6	3.6	4.0

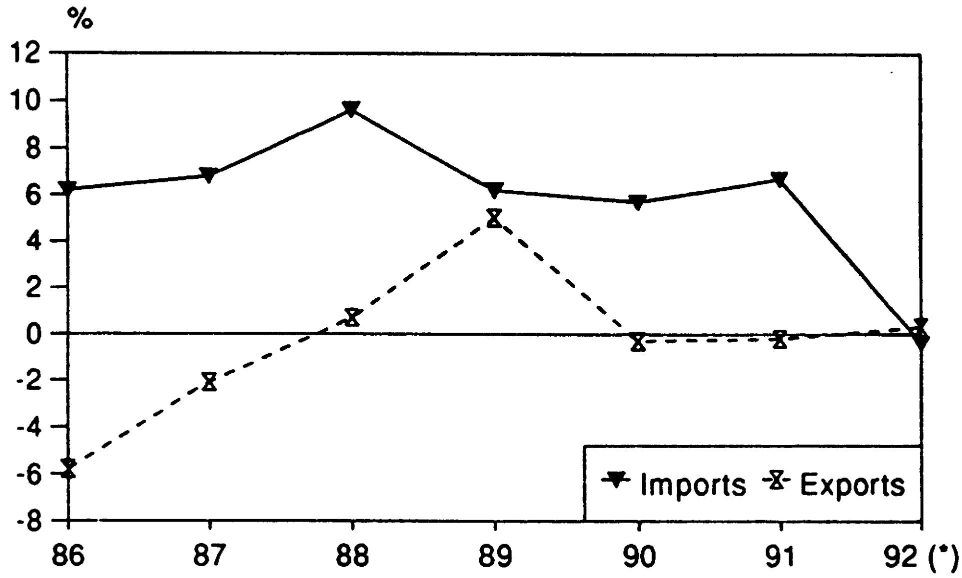
(*) EXTRA EC FOR THE COMMUNITY
SOURCES : EUROSTAT, UNITED NATIONS

TABLE A.5 - PRODUCT STRUCTURE OF TRADE OF THE THREE MAIN PARTNERS WITH THE REST OF THE WORLD (*)

	COMMUNITY				UNITED STATES				JAPAN			
	1988	1989	1990	1991	1988	1989	1990	1991	1988	1989	1990	1991
						IMPORTS (IN %)						
ALL PRODUCTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
PRIMARY PRODUCTS	33.8	34.8	34.0	31.8	20.9	22.6	24.1	21.9	56.8	55.4	54.8	54.1
AGRICULTURAL PRODUCTS	14.1	12.9	12.1	11.5	7.1	7.1	7.0	7.1	24.5	23.3	20.5	21.4
MINING PRODUCTS	18.1	20.1	20.4	19.1	12.8	14.8	16.3	14.2	31.1	30.7	33.3	31.8
NON-FERROUS METALS	3.1	3.4	2.9	2.5	2.3	2.2	1.9	1.7	4.9	4.7	4.2	4.0
FUELS	12.2	13.9	15.2	14.5	9.6	11.4	13.3	11.5	20.8	20.8	24.5	23.3
PETROLEUM/PETR. PR.	*10.2*	*11.8*	*12.9*	*12.1*	*8.9*	*10.6*	*12.5*	*10.6*	*14.1*	*14.5*	*17.9*	*16.2*
NON-AGRICULT. RAW MATER.	1.6	1.7	1.4	1.2	0.9	0.8	0.7	0.6	1.2	1.3	1.0	0.9
MANUFACTURED PRODUCTS	59.0	59.9	60.9	63.1	76.3	74.5	72.7	74.7	39.9	42.0	42.6	43.7
MACHINERY	20.1	20.0	20.2	20.6	24.2	24.4	23.8	24.9	9.0	9.8	10.4	11.3
OFFICE/TELECOM. EQUIP.	10.3	10.0	9.9	10.2	12.5	12.8	12.3	13.5	4.0	4.7	4.8	5.4
POWER/NON-ELECT. MACH.	7.0	7.1	7.4	7.3	7.6	7.9	7.7	7.4	3.4	3.5	3.9	3.9
ELECT. MACH./APPARATUS	2.9	2.9	3.0	3.2	4.2	3.7	3.8	4.0	1.5	1.6	1.7	2.0
TRANSPORT EQUIPMENT	7.4	8.0	8.3	9.3	19.7	18.4	17.5	17.5	3.4	3.5	4.9	4.6
AUTOMOTIVE PRODUCTS	4.5	4.3	4.4	4.7	16.9	16.0	15.2	14.9	2.0	2.3	3.1	2.7
CHEMICALS	6.5	6.6	6.6	6.6	4.4	4.4	4.6	5.0	7.6	7.1	6.5	7.1
MEDICAL/PHARM. PROD.	1.0	1.0	1.1	1.2	0.7	0.4	0.5	0.6	1.4	1.3	1.2	1.3
PLASTICS	1.2	1.3	1.4	1.4	0.6	0.7	0.8	0.8	0.8	0.8	0.7	0.8
OTHER MANUFACTURED PROD.	25.0	25.3	25.8	26.6	27.9	27.3	26.8	27.3	20.0	21.5	20.8	20.7
TEXTILES AND CLOTHING	6.6	6.4	6.9	7.6	6.4	6.6	6.5	6.9	5.7	6.3	5.5	5.8
IRON AND STEEL	2.0	2.2	2.0	1.7	2.7	2.3	2.1	2.0	2.5	2.4	1.9	2.3
PAPER/ARTIC. OF PAPERS	2.9	2.8	2.8	2.7	1.9	1.8	1.7	1.7	0.6	0.6	0.5	0.5
NON-METAL. MIN. MANUF.	1.7	1.8	1.7	1.7	2.3	2.2	2.0	2.0	2.2	2.2	2.3	2.0
OTHER PRODUCTS	7.2	5.3	5.1	5.1	2.8	2.9	3.3	3.4	3.3	2.7	2.6	2.2
						EXPORTS (IN %)						
ALL PRODUCTS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
PRIMARY PRODUCTS	13.3	13.7	13.5	13.4	21.9	21.8	21.2	19.5	2.4	2.4	2.5	2.3
AGRICULTURAL PRODUCTS	8.4	8.7	8.5	8.5	14.7	14.2	13.6	12.6	0.8	0.7	0.7	0.7
MINING PRODUCTS	4.5	4.6	4.7	4.5	5.5	5.9	6.1	5.6	1.1	1.3	1.3	1.2
NON-FERROUS METALS	1.6	1.6	1.4	1.3	1.2	1.3	1.3	1.4	0.8	0.8	0.8	0.7
FUELS	2.3	2.3	2.7	2.5	2.6	2.7	3.1	2.9	0.2	0.3	0.4	0.4
PETROLEUM/PETR. PR.	*2.0*	*2.1*	*2.4*	*2.2*	*1.2*	*1.3*	*1.7*	*1.6*	*0.1*	*0.2*	*0.4*	*0.3*
NON-AGRICULT. RAW MATER.	0.6	0.5	0.6	0.6	1.5	1.7	1.5	1.3	0.5	0.5	0.5	0.4
MANUFACTURED PRODUCTS	81.1	80.6	81.6	81.8	68.9	69.7	74.7	76.3	96.3	96.1	95.9	96.1
MACHINERY	24.5	24.7	25.9	26.2	27.6	27.5	28.8	29.0	42.6	43.3	42.9	43.5
OFFICE/TELECOM. EQUIP.	5.0	4.9	5.0	5.3	13.2	12.7	13.1	13.1	23.8	23.6	23.4	23.4
POWER/NON-ELECT. MACH.	15.6	15.7	16.8	16.5	10.4	11.0	11.4	11.6	13.0	13.9	13.7	14.0
ELECT. MACH./APPARATUS	3.9	4.0	4.1	4.4	3.9	3.8	4.2	4.3	5.8	5.7	5.8	6.1
TRANSPORT EQUIPMENT	13.9	13.6	13.9	14.1	16.6	15.8	17.7	18.4	27.5	27.1	27.8	27.4
AUTOMOTIVE PRODUCTS	9.6	9.0	9.3	8.7	8.5	7.6	8.3	8.4	23.4	22.9	23.1	22.4
CHEMICALS	12.3	11.6	11.6	12.0	9.8	10.2	10.0	10.3	5.2	5.3	5.5	5.5
MEDICAL/PHARM. PROD.	2.1	2.0	2.1	2.3	1.3	1.0	1.1	1.1	0.3	0.3	0.3	0.3
PLASTICS	2.5	2.3	2.2	2.2	2.0	2.2	2.3	2.5	1.5	1.4	1.5	1.5
OTHER MANUFACTURED PROD.	29.9	30.2	29.7	29.0	14.8	16.2	18.2	18.6	20.9	20.4	19.7	19.6
TEXTILES AND CLOTHING	5.4	5.5	5.7	5.6	1.7	1.7	1.9	2.1	2.3	2.2	2.2	2.3
IRON AND STEEL	4.1	4.1	3.4	3.3	0.7	0.9	0.9	1.1	5.8	5.4	4.4	4.3
PAPER/ARTIC. OF PAPERS	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.4	0.6	0.6	0.7	0.7
NON-METAL. MIN. MANUF.	3.7	3.8	3.6	3.5	1.1	1.0	1.2	1.1	1.1	1.1	1.1	1.1
OTHER PRODUCTS	5.6	5.7	4.8	4.8	9.2	8.5	4.1	4.2	1.4	1.4	1.6	1.6

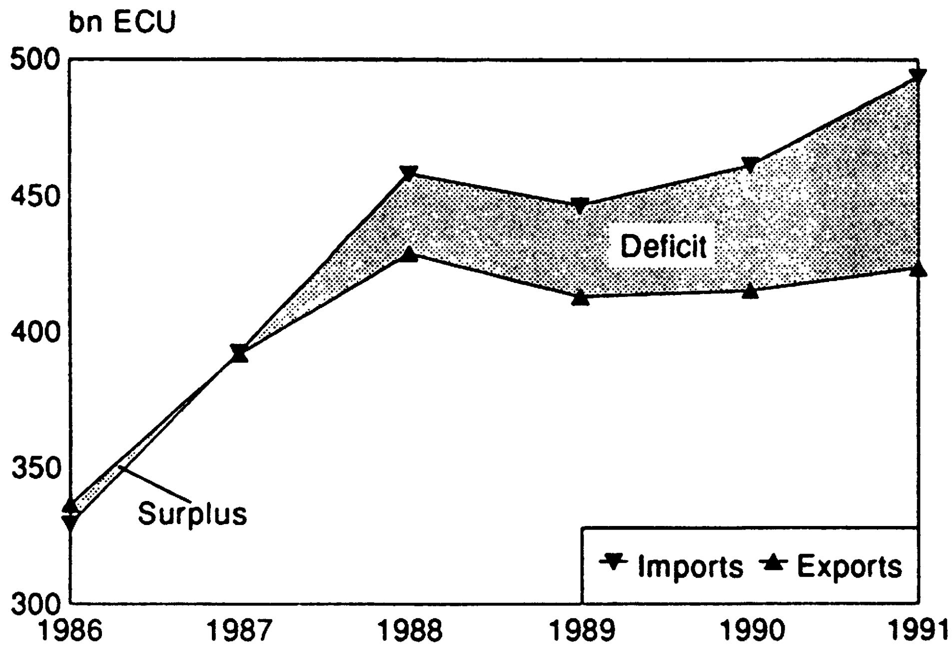
(*) EXTRA EC FOR THE COMMUNITY
SOURCES : EUROSTAT, UNITED NATIONS

Gr. 1 - EC imports and exports in volume
(percentage change over the same period last year)

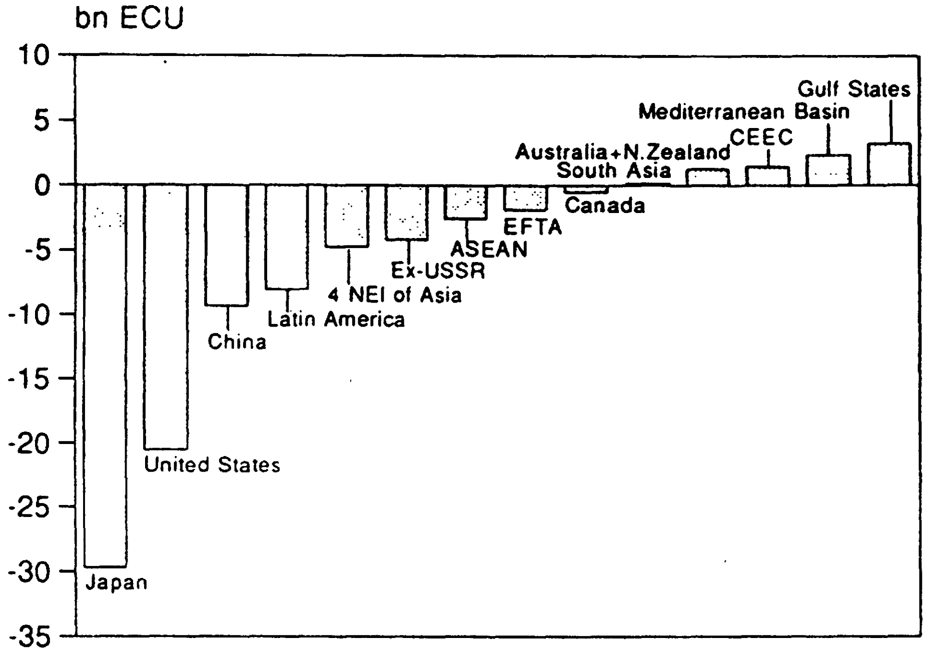


(*) first six months
Source : Eurostat

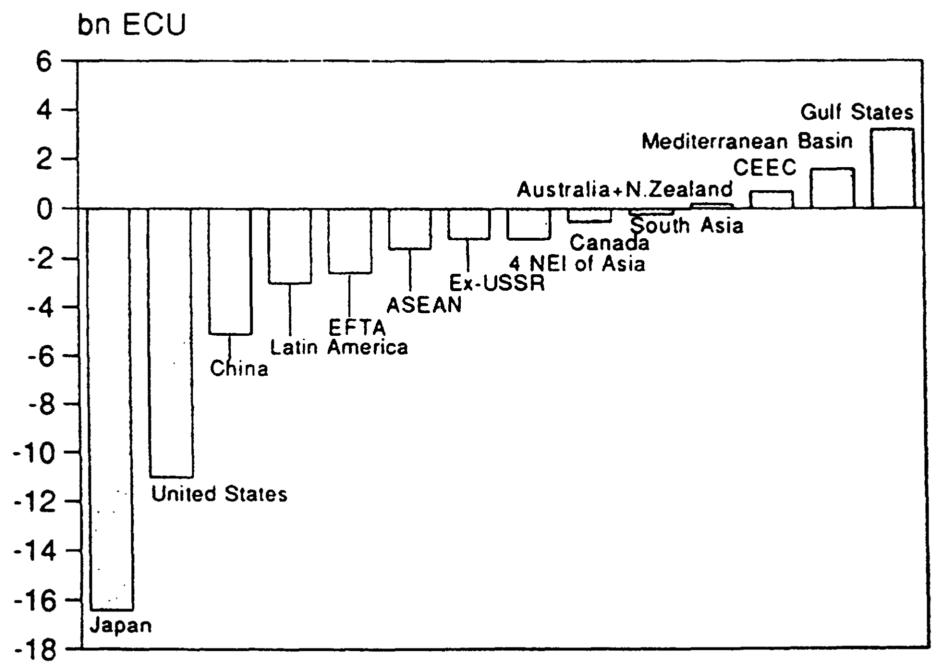
Gr. 2 - EC trade with third countries
(annual figures)



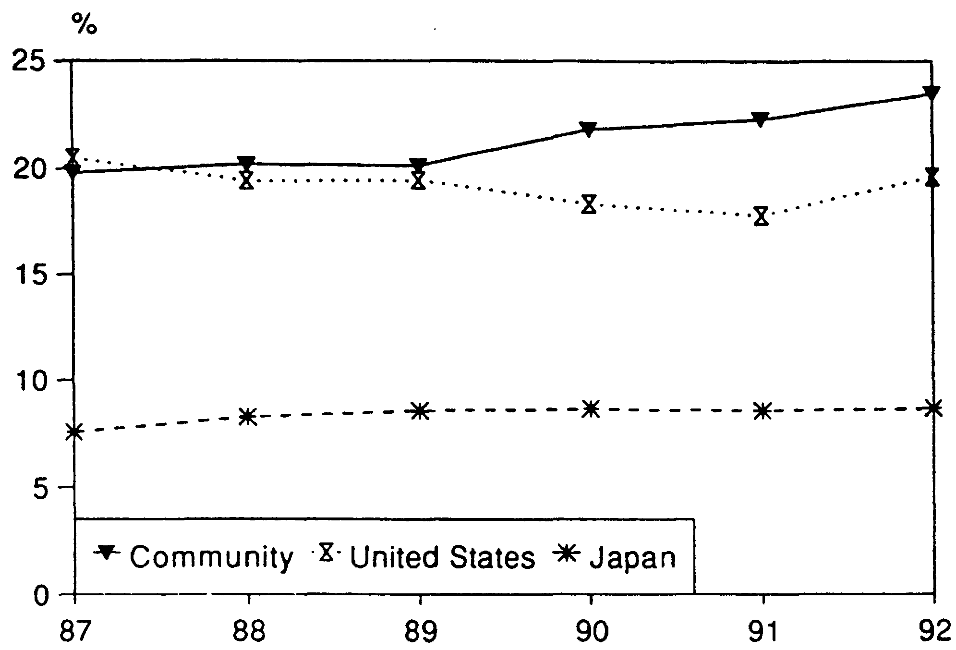
Gr. 3 - Geographic breakdown of EC trade balances in 1991



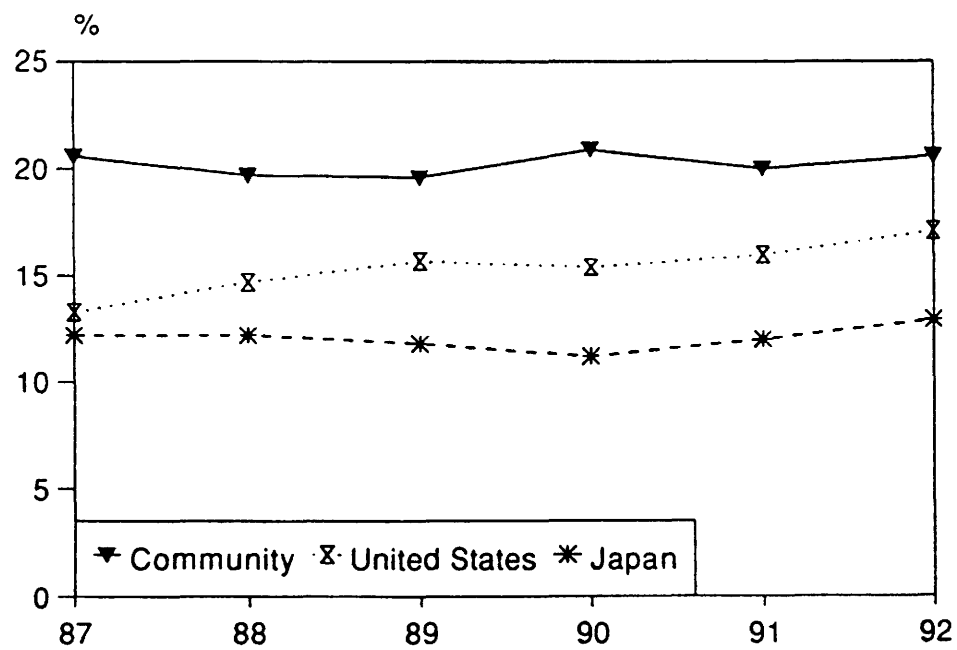
Gr. 4 - Geographic breakdown of EC trade balances (first six months of 1992)



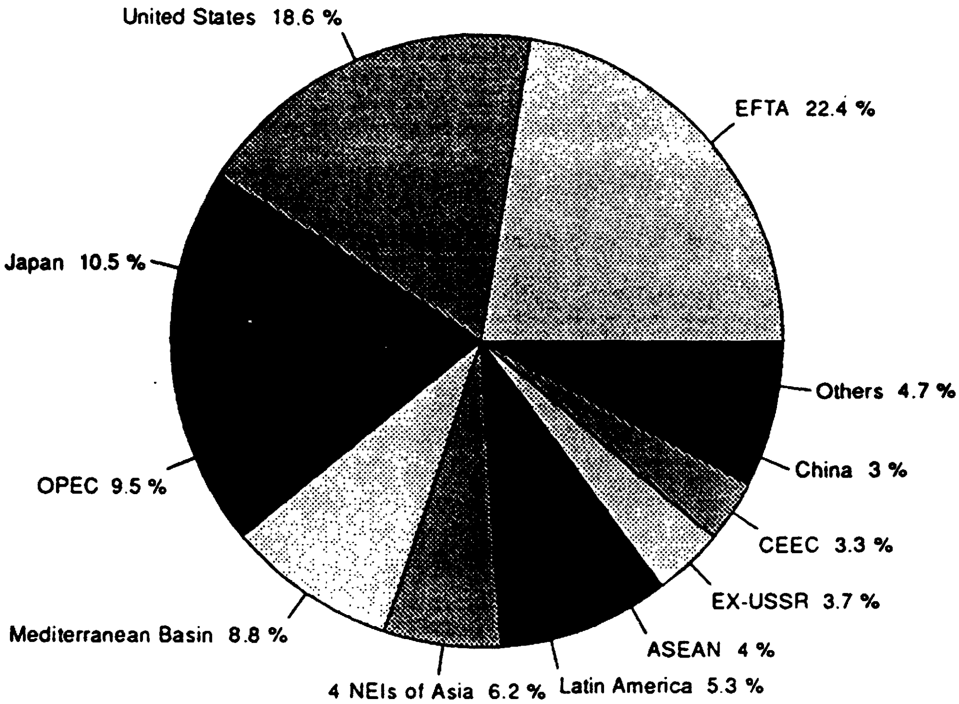
Gr. 5 - Shares of the EC, the US and Japan in world trade imports



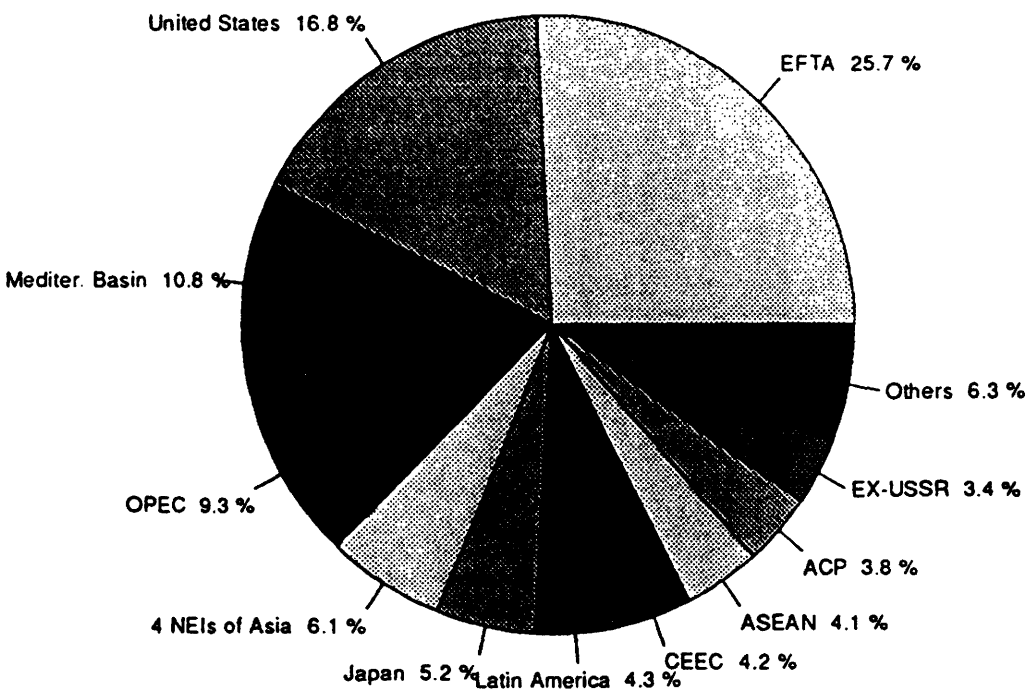
Gr. 6 - Shares of the EC, the US and Japan in world trade exports



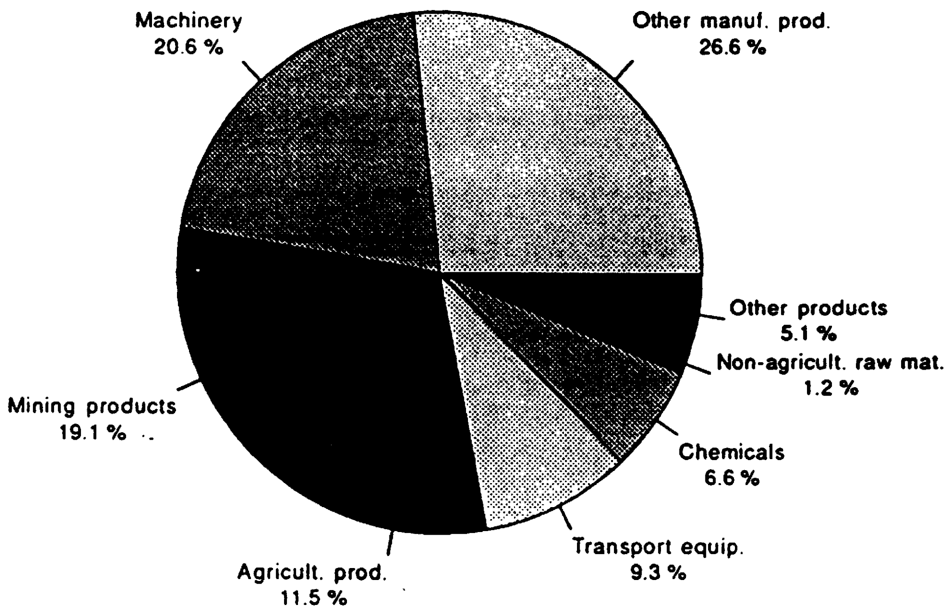
Gr. 7 - Geographic breakdown of EC imports in 1991



Gr. 8 - Geographic breakdown of EC exports in 1991



Gr. 9 - Product breakdown of EC imports in 1991



Gr. 10 - Product breakdown of EC exports in 1991