European Community

News Release

BACKGROUND NOTE

EC PREPARES RETALIATORY RESTRICTIONS ON

U.S. EXPORTS HOPING THEY ARE UNNEEDED

The entry of Spain and Portugal into the European Community after 7 years of complex negotiations has provided Canada, the United States and the EC's other allies with a larger trading partner than ever before. Adding two old and famous European countries recently restored to democracy brought EC membership from 10 to 12 states and its population from 270 to 320 million.

However, the United States has shown very serious concern over the effect of this enlargement on its established trade pattern with the Iberian Peninsula. U.S.farm interests have objected to enlargement provisions that affect their exports of corn, sorghum and soybeans to Spain and Portugal. There is also the complaint that the EC has not followed procedures according international trading rules. The United States has, therefore, stated it would raise tariffs and impose quotas on EC products.

In a statement in Brussels earlier this month, EC Commissioner for External Relations and Trade Policy Willy De Clercq said he would prefer to resolve this dispute without confrontation and through negotiations within the framework of GATT. "But," he said, "if the United States does decide to take the steps it has spoken of, it must be clear that the Community will firmly defend its lawful interests."

Mr. De Clercq then announced that the EC Commission had proposed three lists of U.S. exports that the Community could restrict if the United States in fact raises tariffs and imposes quotas on EC products as it has threatened to do. These lists, which must be approved by the EC Council of Ministers, include corn gluten feed, soybean cake, wheat, wine, beer, bourbon, fruit juices and dried fruits. Each list corresponds to one of the three parts of the overall American complaint with the new trad-

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ing situation occasioned by the entry of Spain and Portugal into the Community. List 1 corresponds to the American measures relating to the arrangement whereby Portugal will maintain an import control system for oilseeds for 5 years; List 2 corresponds to American measures relating to the temporary reservation of 15 per cent of the Portuguese grain market for Community suppliers; List 3 corresponds to the American measures relating to the application of the Community's longstanding Common Agricultural Policy (CAP) to grain on the Spanish market - the replacement of Spain's previous import duty on corn and sorghum with the Community's variable levy.

This carefully calibrated EC response to what it can only see as a very exaggerated American view of difficulties brought about by this latest EC enlargement, carried out strictly according to established procedures and precedents, is what Mr. De Clercq had in mind in asserting that the Community should react "in complete symmetry with (the American) measures." It is a flexible response reflecting EC anxiousness to restrict itself to responding only to specific punitive American measures and not to be a belligerent in a "trade war".

Expressing the Community's great regret at being faced with a need to consider these restrictive measures at all, Mr. De Clercq said it was all the more regrettable since American fears of a setback in the Iberian market were very likely unfounded.

"(The U.S.) can expect to export 20 per cent more soya to Portugal this year than in 1985," he said, adding that the 15 per cent reservation of the Portugal's grain market for Community exporters would have no restrictive effect in 1986.

The Community recognizes that there will be both positive and negative changes for its trading partners as the result of this latest enlargement. But the Community also believes the overall balance of commercial benefits and disadvantages must be assessed, not the effect on particular products viewed in isolation. The U.S. in particular stands to gain far more from the enlargement than it will lose.

Moreover, U.S. manufacturers will certainly benefit from the drop in Spanish and Portuguese industrial tariffs from their present average of 15 per cent to the EC's average level of less than 5 per cent.

IN MORE DETAIL: EC ANSWERS TO U.S. COMPLAINTS

The introduction of the full range of the EC's Common Agricultural Policy (CAP) mechanisms, including the variable import levy, follows the pattern established in previous Community enlargements.

Corn and Sorghum into Spain

After it abolished its import monopoly in 1984, Spain replaced the 20 per cent import duty with a lower fixed tariff plus a variable amount to bridge the gap between the world market price and a fixed entry price. Therefore, the application of the Community's variable levy, also based on the difference between the world market price and the EC's domestic price, should not significantly affect U.S. export opportunities in Spain. Neither Spain nor the Community as a whole is self-sufficient in corn and sorghum, and will continue to import them.

In addition, outlets for U.S. grain substitutes, such as corn gluten feed, could increase in Spain and Portugal.

Notwithstanding, if the U.S. requests compensation under Article XXIV/6 of the GATT, the EC is convinced of the possibility of reaching a settlement taking into account the global consequences of enlargement.

Portuguese Reservation for EC Suppliers

Before enlargement, Portuguese grain imports were highly controlled by a state monopoly that protected the domestic market by reselling imported grain at the higher domestic price. Furthermore, a significant portion of U.S. grain exports to Portugal took place under non-commercial conditions, covered by food aid and credit programs.

In the framework of enlargement, the Portuguese state monopoly will be dismantled within four years. The interim regime foresees 15 percent reservation for EC suppliers. It is hardly conceivable that in the framework of a customs union these suppliers should be completely excluded from the Portuguese market.

Soybeans in Portugal

Portugal had been applying a discretionary import licensing system enabling it to monitor imports and protect the domestic share of its market for olive oil. This system is replaced for 5 years by a more transparent control system which applies only to oilseeds and oils used for domestic human consumption. It should not affect trade opportunities for U.S. exports.

The best evidence of this is that the level established for 1986 could allow Portugal's imports of soybeans for human consumption to increase by 20 per cent over last year. Portuguese imports of soybeans for industrial oil production or for export will be admitted without limitations. U.S. exports in this category should be at least as important as those affected by the control system.

Portugal will gradually reduce its tariff on soybeans to the EC tariff level which is bound under the GATT at zero. In the long run, therefore, the U.S. stands to gain in its soybean trade with the EC.

CONCLUSION

The Community is not asking the U.S.to forfeit its GATT rights or to pay for the economic consequences associated with the enlargement. It calls on the U.S. to begin negotiations for a global solution fair and satisfactory to all without delay.

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NR (86) 4
22 April