Commercial Policy of the European Community

Contents

EUROPEAN COMMUNITY INFORMATION SERVICE
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I: What Is A Common Commercial Policy?

INTRODUCTION

July 1, 1968, remains a landmark in the European Economic Community's (EEC) 14-year history. On that day, the six EEC founding members — Belgium, France, Germany, Italy, Luxembourg, and the Netherlands — completed their customs union 18 months ahead of schedule.

This date marks the halfway point in the Community's evolution to economic and monetary union. As a customs union, the Community not only has eliminated internal trade barriers but also has established a common external tariff and common trade policies vis-à-vis the world. The final goal is complete economic and monetary union by 1980. With economic and monetary union, the nine Community member countries — the original "Six" plus the United Kingdom, Denmark, and Ireland* — will have a common commercial policy in the broadest sense. This brochure attempts to describe the partial common commercial policy which the Community now has.

DEFINITION

What is a common commercial policy? "Commerce," according to Webster's, is the large-scale exchange of commodities involving transportation from place to place. National policy governing these exchanges entails rules, laws, and treaties. Every sovereign state has such a policy. When national policies become linked or replaced by transnational policies, as happened in the European Community, they become a "*common* commercial policy." Such a common policy became imperative when the Community formed a customs union; for free exchanges of goods and services within the Community, its members had to act as a unit toward third countries.

ECSC

The need for a common commercial policy was recognized in the 1951 Paris Treaty which created the first of the three European Communities (in 1952) — the European Coal and Steel Community (ECSC). Chapter X of the Treaty (Articles 71-75), devoted exclusively to commercial policy, empowered the ECSC's executive High Authority to set both minimum and maximum customs duties on coal and steel imported from third countries. The member states' national governments administered import and export licenses for coal and steel, but the High Authority supervised this administration. In addition, the member states bound themselves to inform the High Authority of any proposed trade or commercial agreements involving coal, steel, raw materials, and semifinished products for coal and steel production.

EURATOM

The 1957 Rome Treaty which created the European Atomic Energy Community (Euratom), in 1958, like the ECSC Treaty, provided for both a customs union and a common commercial policy vis-à-vis third countries. Just as the ECSC Treaty dealt only with coal and steel, the Euratom Treaty involved only nuclear supplies and products. Chapter X (Articles 101-106) of the Euratom Treaty put all agreements with countries in the field of nuclear energy under the authority of the Community, rather than the individual member states.

EEC

The main provisions of the Community's common commercial policy are embodied in a second Rome Treaty which created the European Economic Community (EEC) in 1958. This Treaty applies to every product not covered by the other two limited Treaties. The rest of this booklet deals exclusively with EEC commercial policy. Cases where the common commercial policy does not yet fully apply to the new members have been noted.

The EEC Treaty's preamble speaks of the member states as being "desirous of contributing by means of a common commercial policy to the progressive abolition of restrictions on international trade." Article 3 of the Treaty calls for "the establishment of a common customs tariff and of a common commercial policy towards third countries." Article 29 says the Commission "shall be guided by the need for promoting commercial exchanges between the member states and third countries." Chapter 3 of Title II of the Treaty (Articles 110-116) gives the first details of the common commercial policy.

Article 110 pledges the signatory countries to a liberal, rather than inward-looking, commercial policy. It states their intention "to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges, and the lowering of customs barriers." This liberally conceived commercial policy looks forward

*Industrial tariffs between the new and the old member states are to be eliminated in five cuts of 20 per cent each. The first tariff reduction is scheduled for April 1, 1973, the last for July 1, 1977. Britain, Denmark, and Ireland take on the common external tariff vis-à-vis third countries in four steps — 40 per cent on January 1, 1974, and 20 per cent on January 1, 1975, on January 1, 1976, and on July 1, 1977. Agricultural alignment, a six-stage process, is scheduled for completion by December 31, 1977.

to an "increase of the competitive strength of the enterprises in those states" as a result of heightened internal competition brought about by the customs union. In other words, the creation of the Common Market inevitably means increased trade with third countries; strong domestic industry will hold its own in world markets.

Article 111 states that member countries "shall coordinate their commercial relations with third countries in such a way as to bring about, not later than at the expiry of the transitional period, the conditions necessary to the implementation of a common policy in the matter of external trade." (That transitional period, as regards the customs union, was completed on July 1, 1968; the common commercial policy is still in a state of transition.) Article 112 binds the member states to harmonize "their measures to aid exports to third countries," also during the transitional period.

After the transitional period, stipulates Article 113, "the common commercial policy shall be based on uniform principles, particularly in regard to tariff amendments, the conclusion of tariff or trade agreements, the alignment of measures of liberalization, export policy, and protective commercial measures, including measures to be taken in cases of dumping or subsidies." This Article also describes the common negotiating procedure for concluding commercial agreements with third countries: the Council of Ministers authorizes the Commission to open negotiations; the Commission is assisted during negotiations by a special committee appointed by the Council, and all Council decisions are made by a qualified majority vote.

Article 116 stipulates that the individual member states must present a united front within "any international organizations of an economic character." For negotiations within the General Agreement on Tariffs and Trade (GATT), the major international organization involved in commercial policy, the Commission proposes a common negotiating position on which the Council acts by a qualified majority vote. Once approved by the Council, the results of negotiations bind the member states without any national legislative process of approval.

Article 115 qualifies the broad transfer of power from member states to the Community institutions in providing for safeguard measures: "In order to ensure that the execution of measures of commercial policy taken in conformity with this Treaty by any member state shall not be prevented by diversions of commercial traffic, or where disparities between such measures lead to economic difficulties in one or more of the member states, the Commission shall recommend the methods whereby the other member states shall provide the necessary cooperation. Failing this, the Commission shall authorize the member states to take the necessary protective measures of which it shall determine the conditions and particulars."

RECORD TO DATE

The completion date for a common commercial policy, like the customs union itself, was originally set for January 1, 1970. Unlike the customs union which was attained 18 months ahead of schedule, the common commercial policy is, in some respects, still incomplete. In addition, the three new members are just beginning the first stage of their gradual adjustment to the common policy and its responsibilities.

During the transitional period, steps toward a common commercial policy were many and unexpectedly successful. Administratively, the member states agreed to harmonize liberalization lists, establish common antidumping measures and equalization taxes, set uniform import quotas, and make common rules about the origins of goods. In the realm of trade negotiations with non-member countries, the Community followed a common position for the Kennedy Round of GATT negotiations, the Council of Ministers set down a common procedure for commercial negotiations with third countries, and the Community concluded several trade arrangements with non-member countries.

However, according to a report by the European Parliament's External Trade Relations Committee (May 12, 1972, Document 32), "the governments of the member states have tacitly agreed to retain the greatest possible measure of independence over trade policy as a means of conducting a sovereign foreign policy on traditional lines and also as an indication of a tendency to return to the national approach instead of decisively forging ahead with bringing the Community into being in all sectors, in accordance with the explicit provisions in the Treaty." In short, many bilateral trade agreements have remained intact; and those that have been superseded by Community trade agreements often manifest national rather than Community objectives. The Parliamentary report said: "That there was and is no definite idea about a common commercial policy is also demonstrated by the way the various associations and trade agreements . . . have been concluded individually or with reference to other considerations than a common commercial policy, in accordance with Article 110."

As with the checks and balances within the US Government, however, the European Parliament often plays an adversary role vis-à-vis the other Community institutions — in particular, the Commission and the Council of Ministers. The criticism, well directed and based on "European" expectations, is intended to goad on the Commission and the Council. From an objective standpoint, the Community has already gone farther than any previous grouping of nation-states toward establishing a common commercial policy. Since the enlarged Community is the largest trading bloc in the world, this policy deserves examination.

II: Administration

INTRODUCTION

To execute a common commercial policy, power must be transferred from the member states to the Community by laws: regulations, directives, and decisions. Where commercial policy relates to other EEC Treaty provisions (such as the customs union and the common agricultural policy), the Community has sometimes been ahead of the schedule for establishing a common commercial policy. As early as 1962, the Council of Ministers adopted an action program for the common commercial policy proposed by the Commission. With a few notable exceptions — common definition for origin of goods, common customs tariff, and common antidumping rules — regulations executing this program did not materialize until after the transition period establishing the customs union. Ideally, the customs union and the common commercial policy should have developed simultaneously.

It was not until May 25, 1970, that the Council of Ministers legislated a common system for imports from non-member countries and a common procedure for administering quantitative quotas. These regulations — respectively, Regulation 1025/70 and Regulation 1023/70 — superseded three interim regulations of December 10, 1968, whose passage marked one of the first firm steps toward an administratively uniform commercial policy. They were:

- **Regulation 2041/68** established a joint liberalization list for non-member countries' exports to the EEC.
- **Regulation 2043/68** provided for the progressive establishment of a common procedure for administering quantitative quotas on imports into the EEC.
- **Regulation 2045/68** introduced a special procedure for the importation of certain products from some non-member countries.

COMMON SYSTEM FOR IMPORTS FROM NON-MEMBER COUNTRIES

Regulation 1025/70 lists products that can be freely imported into the Community without quantitative restrictions. The liberalization list covers over 900 headings of the 1,097 in the Common Customs Tariff (CCT) and may be extended by the Council's qualified majority decision on a Commission proposal. The regulation applies to trade with all GATT members (except Japan); it thus covers more than 90 per cent of the Community's total external trade.

The regulation provides for safeguard measures to be applied if an import threatens to "prejudice" the interests of domestic Community producers. This safeguard system consists of three successive stages:

- **Consultation.** Upon the request of a member state or of the Commission, an Advisory Committee of member state and Commission representatives examines the economic and commercial effects of the importation of the suspect product.
- **Supervision.** Once an import is deemed prejudicial to Community producers of similar or competing products, the Commission may decide to supervise trade in these imports within the Community. The Council may reverse the Commission's decision. No restrictive measures are entailed at this stage. The supervision consists of the requirement that the product be accompanied by an import document from a member state, showing the country of origin, the CIF (cost, insurance, freight) price free-at-border, and the quantity imported.
- **Safeguard measures.** In emergencies, safeguard measures may be adopted at the Community or at the national level. The Commission, on its own initiative or at the request of a member state, may limit an import document's validity or may require an import license. The Commission's decision is subject to Council approval.

In other situations, the Council of Ministers may limit import volume by removing a product from the liberalized list or by limiting the imports to certain regions of the Community. In case of an emergency situation facing a member state that has a bilateral agreement with a third country pertinent to the situation, that member state, in consultation with the Advisory Committee, may require an import permit. None of these safeguard measures may be utilized in violation of the Community's international obligations, such as those in the GATT.

COMMON PROCEDURE FOR ADMINISTERING QUANTITATIVE QUOTAS

Regulation 1023/70, also adopted by the Council on May 25, 1970, covers all non-liberated imports and exports not previously covered by member states' bilateral agreements or by the common agricultural policy. Once Community agreements supersede all national commercial agreements, the Community may adopt such quantitative restrictions autonomously on all non-liberated products. The regulation makes the Council responsible for setting and allotting quotas. The Commission — in consultation with the Quota Management Committee, composed of representatives of the member states and headed by a Commission representative — administers the quotas.

This system is flexible. Distribution of quota shares

among the member states allows for a necessary overall increase in the total quotas. Moreover, a member state may authorize up to 20 per cent more than its initial quota share if the Commission does not rule otherwise after a notice of intent. The Commission must rule within three weeks after the member state's decision.

The day-to-day administration is left to the member states, which issue import and export permits within their quota shares. Three weeks after distributing a quota share, the member states must publish reports on the products issued permits. Each month, the member states must give the Commission all information necessary to evaluate the use of quotas.

COMMON SYSTEM FOR IMPORTS FROM STATE-CONTROLLED ECONOMIES

To tackle the special problems posed by imports from communist countries, the Council of Ministers on December 20, 1969, adopted Regulation 109/70. The regulation "frees" almost 500 tariff headings, and others may be added by decision of the Council. The procedures and measures to deal with imports deemed prejudicial are identical to those embodied in Regulation 1025/70 (page 5).

Subsequently, the Council of Ministers has freed many additional tariff headings for imports from state-controlled economies. Now, almost 800 tariff headings are liberalized for most countries in the Council for Mutual Economic Assistance (COMECON): namely, Bulgaria, Czechoslovakia, Hungary, Poland, and Romania. For the Soviet Union, the figure is approximately 600. A recent Commission proposal (October 24, 1972) would extend to the Soviet Union the same degree of liberalization as the East European countries enjoy. (The difference in liberalization was due to the many quantitative restrictions applied by Germany to Soviet imports: the Community list can include only those products liberalized by every member state. The conclusion of the Soviet/German trade agreement has made further liberalization possible.) The Commission has also proposed to the Council the liberalization of 497 headings for the People's Republic of China and 154 headings for Mongolia, North Korea, and North Vietnam.

COMMON SYSTEM FOR EXPORTS TO NON-MEMBER COUNTRIES

Regulation 2603/69, adopted by the Council on December 20, 1969, covers almost all the Community's non-agricultural exports. The excluded tariff headings, a list subsequently shortened by Regulation 234/71, remain subject to quantitative export restrictions. For regulated agricultural products, Regulation 2603/69 supplements the common agricultural policy.

To protect the interests of the Community (to prevent the shortage of essential products, for example), the regulation allows for the introduction of safeguard measures. As in Regulation 1025/70, after mandatory consultations with the Advisory Committee, the Council of Ministers makes the final decision. Initial safeguard measures can be taken, however, by either the Commission or a member state.

COMMON DEFINITION OF ORIGIN OF GOODS

Basic to the establishment of the customs union was the Council's adoption of Regulation 802/68, defining the "origin" of goods. This regulation went into effect July 1, 1968, at the same time as the customs union. Since member states would apply a common external tariff, there could be no discrepancies in the definition of "origin." (In world commerce, there are national but no international definitions.)

The Community's basic definition states the obvious: namely, that goods extracted or produced entirely in one country have their origin in that country. Examples in this category include: minerals extracted in one country, animals born or hatched and raised in one country, and goods exclusively processed in one country. A product made in two or more countries originates in the country in which "the last substantial and economically justified processing or conversion took place or else effected in an enterprise equipped for that purpose and resulting in the production of a new product or a product representing a significant processing stage." A Committee on Questions of Origin, composed of representatives of the member states and headed by a Commission representative, examines the application of the regulation upon request by the Commission or a member state.

The regulation also provides for certificates of origin for both imports and exports. Import certificates must contain all information necessary to identify the product (number, type, weight, name of sender, consignee, etc.) and must be issued by an authorized agency in the country of origin. Certificates of origin for Community exports must state that the product originates in the Community; the member states, in this regard, are considered a single territorial entity.

COMMON CUSTOMS VALUE

Another essential of the customs union was a uniform method for determining the customs value of imported goods, described in Regulation 803/68. This regulation, too, went into effect July 1, 1968. Even though all the member states subscribed to the 1950 Brussels Convention on the Valuation of Goods for Customs Purposes, this regulation was necessary because the Convention contained optional clauses which various member states' administrations and courts had interpreted differently.

Regulation 803/68 specifies that the "normal" price of imported goods is the price ordinarily to be used as the customs value. By "normal" is meant the price the goods would bring, at the time the duty becomes payable, on sale on the open market between a buyer and a seller who are independent of each other. It is assumed that the seller bears all costs (insurance, loading, transport, consular fees, etc.) involved in the sale and the delivery to the point of entry; these costs are thus included in the normal price. Point of entry can be a seaport or, depending on the mode of shipment, the place where the goods cross the frontier of the Community's customs territory. The duty becomes payable on the date the goods are accepted for entry into trade within the Community.

The invoice price of the goods may be used as the basis for their customs value; in general, if the sales contract was signed six months before the duty became payable. Other provisions provide for transport costs to the point of entry and for rates of currency exchange. A Committee on Customs Valuation, composed of representatives from the member states and headed by a Commission representative, examines any problems arising from application of the measure.

COMMON ANTIDUMPING RULES

Still another regulation which came into force on July 1, 1968, with the customs union, Regulation 459/68, establishes common principles and procedures to protect the Community against dumping. It applies to all goods and to all dumping, premium, and subsidy practices by non-member countries. The three criteria for imposing antidumping duties are the same as those embodied in Article VI of the GATT: the product being dumped must cause a material injury to an established Community industry, or must threaten such an injury, or must substantially retard the growth of a developing Community industry.

Any individual or company that feels injured or threatened by dumping may make a written complaint either to the member state in which the industry is located or directly to the EC Commission. Only if the complaint is both complete and substantiated does the Commission investigate the dumping practice. An imported product is defined as "dumped" if the price of the product in the Community is less than the price in the country of origin or exportation. To determine injury or threatened injury, there must be material proof. Unlike the US procedure, the Community definition does not allow a finding of injury or threatened injury based upon probability, speculation, or allegation. If the investigation shows antidumping measures to be necessary, the Commission must notify the exporters, importers, and the authorities in the country of exportation and publish the findings in the Community's *Official Journal*. All interested parties must be given a hearing.

In emergencies, the Commission may take temporary safeguard measures after a preliminary examination. Safeguards may remain in effect for no more than three months. Then, the Commission decides (with power of review by the Council) whether the temporary duties should be made permanent. The sum of the temporary and the final antidumping duties may not exceed the margin of dumping and must be less than the margin of dumping if that amount is sufficient to compensate for injury. The regulation embodies similar procedures for countervailing duties to offset a premium or subsidy in the country of origin or exportation. Individual states may, in consultation with the Commission, impose both antidumping and countervailing duties to protect local industries.

INWARD PROCESSING TRAFFIC

Directive 69/73, passed by the Council of Ministers on March 4, 1969, harmonizes the member states' laws regarding "inward processing traffic." Inward processing is a shorthand term for importing goods from non-member countries duty-or-levy-free for incorporation into goods subsequently exported by the Community. The importance of this tariff arrangement, practiced in most industrialized countries, increases every day. It involves not only food and textiles but computers, motor vehicles, aircraft, and chemicals. At the time the Council adopted this directive, an estimated $6 billion to $7 billion of the EC's total $31 billion in exports stemmed from inward processing traffic arrangements. Before the Council's directive, some member countries (in particular, Benelux) allowed considerably more freedom of operation than others, thus distorting export competition in the Common Market.

In harmonizing the member states' legislation in this area, the directive prescribed liberal criteria for administering inward processing traffic. In short, the directive calls for an optimum combination of export conditions without detriment to Community producers of the same goods. To oversee the administrative and procedural problems involved in such a liberal system, the Commission is empowered, through a special committee, to examine all questions. On February 1, 1972, the Council adopted a similar directive on agricultural products.

Still in the study stage are comprehensive proposals for harmonizing outward processing traffic. Action in this area has already been taken, however, for certain textile products (Regulations 1707/71 and 2291/72).

BONDED WAREHOUSES AND FREE ZONES

As with inward processing traffic, the member states' widely varying laws on bonded warehouses and free zones had to be harmonized. The economic importance of bonded warehouses can be seen by the $5 billion to $6 billion annual value of goods (other than oil) stored in these warehouses at the time of the Council's directive. While stored, these goods escape customs duties or agricultural levies before consignment to the user. Since each member state had different regulations for assessing duties on temporarily stored imports, importers sought out warehouses with the most liberal procedures. Such an arrangement was incompatible with a customs union.

Council Directive 69/74, adopted on March 4, 1969, eliminates the diversions of trade, distribution, and customs revenue inherent in the discrepancies in the member states' regulations. Article 100 of the Common Market Treaty — enabling harmonization of laws directed toward creating a common market — served as the legal basis for the Council's directive. The directive describes the conditions under which warehouses may be established, the obligations of warehouse keepers and bonders, maximum periods for bonding goods, and a common basis for tax assessment of goods consumed after warehousing.

Also jeopardizing the Community's customs union were disparate laws on free zones. A free zone is any territorial enclave where merchandise is not liable to customs duties, agricultural levies, quantitative restrictions, or any charges or measures with an equivalent effect.

Based on Article 100 of the Common Market Treaty, Directive 69/75 was adopted by the Council of Ministers on March 4, 1969. This directive prevents member states from establishing free zones where products from non-

member states might be consumed without payment of duties. On the other hand, the directive encourages member states to create free zones where goods from non-member countries may be stored duty-free for unlimited periods of time. Such encouragement aids economic development by facilitating bonding activities and inward processing traffic.

OTHERS

Harmonization is also progressing in the realm of export credit. By Council of Ministers Directives 70/509 and 70/510, passed on October 27, 1970, and Directive 71/86, passed on February 1, 1971, the Community has common policies concerning medium- and long-term insurance with public and private buyers as well as short-term operations for political risks (economic risks for short-term operations are covered by private credit insurance companies). A consultation procedure is in effect, and there are common provisions for definitions, time periods, application of guarantees, and general principles for indemnization and recuperation.

Too, the Council adopted on March 4, 1969, common rules for deferred payment of customs duties, agricultural levies, and taxes with equivalent effect. Directive 69/76 allows importers throughout the Community 30 days' "grace" for payment without interest. (Prior to this directive, grace periods ranged from five days in the Benelux to 60 days in Germany.) The directive also stipulates that if interest falls due, the interest rate must conform to the current conditions of the capital market in the member state concerned.

Integral parts of the Community's common commercial policy are, of course, all the common rules, definitions, and procedures involved in the customs union. Of particular importance for trade with third countries are the quantity and the quality of the Common Market — i.e., what is included in the customs territory and how free is intra-Community circulation of goods. The answer to the first seems obvious — the nine member countries — but the customs territory, according to a Commission memorandum of September 18, 1970, also includes the continental shelf. As for whether the customs union is more than a union in name only, Council Regulation 542/69, adopted March 18, 1969, overcame the last main obstacle to truly free circulation of goods within the Community by setting up common rules for transit.

III: Trade Negotiations and Agreements

INTRODUCTION

The biggest test of the Community's common commercial policy came with the Kennedy Round of GATT negotiations, and the test was passed. Not only did the trade talks result in an average 35 per cent global reduction in industrial tariffs, but Belgium, France, Germany, Italy, Luxembourg, and the Netherlands also negotiated not as six individual countries but as one unit. The next step in the development of the Community's commercial policy was almost a mere formality — the Council of Ministers Decisions 69/495, 69/496, and 69/497 of December 16, 1969, to standardize progressively the member states' trade agreements and to put negotiations for these agreements in the hands of the Community.

The groundwork for these decisions had been laid by two Council Decisions in 1961 calling for consultations prior to the continuation of existing trade agreements and for limiting the duration of bilateral agreements.

The December 16, 1969, decisions provided for both Community-level negotiations and national negotiations for agreements with third countries. Community negotiations are conducted in accordance with Article 113 of the Common Market Treaty: the negotiations are conducted by the Commission in consultation with a committee appointed by the Council of Ministers.

National, bilateral negotiations can take place only within the framework of consultations with a Community-level committee (set up by the Decision of October 9, 1961) and must be authorized by a qualified majority vote of the Council based on a proposal from the Commission. Beginning January 1, 1973, however, even these bilateral negotiations are replaced by a Community-level procedure. There are, however, several exceptions.

JAPAN AND THE EAST BLOC: SPECIAL CASES

The main obstacle to the Community's common commercial policy in the area of trade negotiations and agreements has been political, not economic. The member states have been reluctant to surrender national prerogatives in trade, which is often regarded as an instrument of foreign policy rather than a commercial matter. Two cases in point involve trade with Japan and with member countries of the Council for Mutual Economic Assistance (COMECON).

With Japan, one of the strongest industrialized traders in the world, the economic considerations for Community member states are so huge that they automatically spill over into the political arena. Several member countries have safeguard clauses in their bilateral trade agreements with Japan, under the non-application clause Article XXXV of the GATT; and their unwillingness to give up this protection against a possible flood of Japanese exports has led to the Community's insistence on a similar safeguard clause in any Community-Japan trade agreement. By the end of 1972, exploratory talks between the Community and Japan had netted no concrete results. Until Japan accepts the inclusion of safeguard clauses in a trade pact with the Community, the present bilateral agreements will probably persist.

The persistence of bilateral agreements with the so-called East Bloc countries, on the other hand, is due largely to the COMECON member states' refusal to recognize the Community. Taking the lead of the Soviet Union, these countries have not participated in negotiations with Community institutions and have concluded trade agreements only on a bilateral basis. But the Soviet attitude seems to be changing: Soviet Party Secretary Leonid Brezhnev admitted in the spring of 1972 that the Community was "a fact of life"; and Romania has applied directly to the Community to be included in the Community's generalized preference system. Since Community-COMECON trade is increasing, East Bloc economic dictates will no doubt ensure Community-level negotiations and agreements after January 1, 1973. Long-term agreements between the three new Community members and state-trading countries, however, may remain in force until December 31, 1974.

ASSOCIATION AGREEMENTS

One of the best known but least understood aspects of the Community's common commercial policy is its preference system for certain associated states. The origins of this system lie in Articles 131 - 136 of the EEC Treaty. Here provision was made for the interests of overseas territories and former colonies and dependencies of EC member states, mainly African and Caribbean countries which had special links with Belgium, France, Italy, and the Netherlands.

Out of these provisions, after most of the African countries had achieved independence, arose the first Yaoundé Convention, which came into force on June 1, 1964. The second Yaoundé Convention, was applied from January 1, 1971. Original associates of the Community, under these Conventions, are: Mauritania, Mali, Voltaic Republic, Niger, Senegal, Ivory Coast, Togo, Dahomey, Cameroon, Chad, Centrafrican Republic, Gabon, Congo-Brazzaville, Zaïre, Rwanda, Burundi, Somalia, and Madagascar.

As Community associates, "Yaoundé" countries have free access to Community markets and benefit from Community development programs. Conversely, products from

Community member countries have free access to the associates' domestic markets; but this arrangement does *not* equal a free trade zone. The associates may impose tariff or other trade barriers on Community products to protect infant industries, but associates may not discriminate against the goods from any particular Community state. All Community members must be treated alike.

Other countries which have associate status with the Community are: Greece, Turkey, the East African Community (Kenya, Uganda, and Tanzania), Tunisia, Morocco, and Malta. Algeria is negotiating associate status, and a December 1972 agreement with Cyprus awaits ratification. Unlike the Yaoundé Convention associates, however, these countries do not receive economic aid, with the exception of Turkey. Turkey receives loans at reduced interest as did Greece until the military coup in 1967.

Under the Accession Treaty joining the United Kingdom with the Community, all independent Commonwealth countries have been offered the possibility of association with the Community — either through the Yaoundé Convention or through aid and institutional ties or by special trade agreements. The first Commonwealth country to take advantage of this offer was the Indian Ocean island of Mauritius, which acceded to the Yaoundé Convention on January 1, 1973.

TRADE AGREEMENTS

Egypt: A five-year preferential trade agreement, signed in December 1972, is awaiting ratification. Nearly 90 per cent of Egypt's industrial exports to the Community will qualify for tariff-free entry or tariff reductions. Nearly 50 per cent of Egypt's agricultural exports to the Community will benefit from concessions. About 55 per cent of the Community's exports to Egypt will benefit from reduced or zero duties after the agreement goes into force.

Iran: The non-preferential pact with Iran, the Community's first such trade agreement, provides for the reduction of the Community's common external tariff on certain imports from Iran. These goods include carpets, rugs, raisins, dried apricots, and caviar. The agreement went into force on December 1, 1963, for a three-year period and has since been renewed annually. The agreement also provides for a mixed committee of representatives from the Community and the Iranian Government that meets once a year with the aim of expanded, harmonious trade relations.

Lebanon: A five-year preferential trade agreement, signed in December 1972, is awaiting ratification. It will replace an earlier non-preferential agreement. The new agreement will allow nearly 85 per cent of Lebanon's industrial exports to qualify for tariff-free entry or tariff reductions. In the agricultural sector, the Community concessions cover almost 40 per cent of Lebanon's agricultural exports to the Community. The agreement also provides for technical cooperation to help Lebanese development. Lebanese concessions to the Community mainly involve products not produced in Lebanon. About 60 per cent of the Communitys' exports to Lebanon will benefit from reduced or zero duties.

Israel: To safeguard traditional economic and commercial ties, the Community and Israel concluded a preferential trade agreement which went into force on October 1, 1970, and is scheduled to expire September 30, 1975. Under this agreement, approximately 85 per cent of all industrial products and 80 per cent of all agricultural goods imported from Israel enjoy Community tariff concessions. These concessions are scheduled on a fixed timetable. Israel, in return, grants tariff concessions to more than half its industrial and agricultural imports from the Community but has the right to withdraw certain concessions if developing domestic industries are threatened. In addition, the agreement includes a safeguard clause to protect both parties if balance-of-payments disturbances or other economic difficulties arise. The agreement is managed by a joint committee of Community and Israeli representatives.

Spain: Similarly, the preferential accord with Spain, which also became operative on October 1, 1970, was concluded to preserve the historic links between Community member countries and their European neighbor. The accord is for an initial period of six years; the commencement of a "second stage" must be mutually agreed upon. (If Spain becomes a democracy, the second stage could pave the way for full Spanish membership in the Community.) During the first stage, trade barriers will be gradually eliminated between the Community and Spain. Like the EC-Israel agreement, this accord contains a safeguard clause and provides for a joint committee.

Yugoslavia: The three-year non-preferential trade agreement between the Community and Yugoslavia, which went into force on May 1, 1970, is the first instance of a common Community trade agreement with a communist country. Under the agreement, reduced tariff rates established in the Kennedy Round went into effect immediately for trade between the two parties. Each party gives the other most-favored-nation treatment in its widest commercial sense. To accommodate Yugoslavia's agricultural trade, the Community agreed to a timetable reduction of its levy on high quality beef imports. (The question of certain other agricultural products — corn, wine, and tobacco — remains unresolved.) This agreement, which supersedes bilateral agreements between individual Community countries and Yugoslavia, thus provides an institutional (joint committee) and legal framework which may become the basis for economic relations between the Community — not individual member states, as presently — and other East European countries.

Argentina: The Argentina-Community non-preferential trade pact, concluded November 8, 1971, is the first of its kind between the Community and a Latin American country. The three-year agreement, which conforms to the most-favored-nation clause of the GATT, includes reciprocal liberalization of trade regulations, agricultural cooperation, and a joint committee to promote economic and commercial cooperation. Since Argentina then supplied the "Six" with about 38 per cent of its beef imports, the Community agreed to lower levies on frozen meat imported for processing and to fix the variable levy on imported refrigerated meat one month in advance. In exchange, Argentina agreed to the gradual elimination of import deposits for certain

Community exports and undertook not to discriminate against Community shipping and investors. Other provisions include the gradual reduction of quantitative restrictions and increased consultation on customs duty evaluation problems in Argentina.

EFTA: The European Free Trade Association (EFTA) was formed in 1960 largely as a result of the economic success of the European Community. Seeing the commercial benefits of the EC's customs union, Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland joined together to form a free trade zone but without the political sacrifices made by the Community member states. Henceforth, Western Europe was divided into two trading blocs — popularly referred to as the "Inner Six" and the "Outer Seven." Later, Finland and Iceland also joined EFTA.

With the entry of Britain and Denmark into the Community, the remaining EFTA countries negotiated an agreement with the Community to prevent the reestablishment of trade barriers between the two old EFTA members and the remaining members. (Norway, which at the time was a candidate for full EC membership but later rejected it, is expected to conclude similar negotiations in the near future.) Thus, on January 1, 1973, a 16-nation European free trade area came into being, with tariffs on all industrial goods to be eliminated by mid-1977.

With the Community's enlargement on January 1, 1973, the three new members — Britain, Denmark, and Ireland — undertook to assume the full rights and obligations of trade agreements concluded by the original "Six." Some agreements may have to be adapted; any adjustments would be negotiated by the Community in association with representatives of the new member states. The Accession Treaty also stipulated that the new member states' tariff treatment for products coming from Mediterranean countries with which the Community has agreements would not be more favorable than that applied by the new member states to products coming from the original member states. Tariff treatment applied by Mediterranean countries must also be the same for the new and the original members.

GENERALIZED PREFERENCES

On July 1, 1971, the Community became the first industrialized trading power to establish a system of generalized preferences to the "Third World." The offer was made to the 91 developing countries in the United Nations Conference on Trade and Development (UNCTAD). Cuba, Bhutan, Fiji, Bangladesh, the Persian Gulf States, Oman, Sikkim, Nauru, Western Samoa, and Tonga have subsequently been added to this list. Culminating eight years of work, the generalized preference system has been characterized as one of the most important international steps the Community has taken.

Designed to give maximum advantage to developing countries while still safeguarding industrial and agricultural interests within the Community and its associates, the system eliminates quotas and gives a partial reduction in duties or levies on about 150 processed agricultural products imported from the Third World — valued at approximately $33 million. A safeguard clause, based on Article XIX of the GATT, allows partial or complete reimposition of a duty or levy when the domestic Community production of that particular product is harmed. The safeguard clause applies, however, only to the country or countries causing the harm; non-offending developing countries are thus protected.

For semimanufactured and manufactured imports from developing countries, the Community fixes a ceiling each calendar year for each product. The ceiling rises each year. This ceiling system is counterbalanced by duty-exemption, by the fact that no goods (not even "sensitive" goods) are shut out completely, and by the absence of any safeguard clause. In practice, the ceilings have rarely been applied.

Britain and Denmark, in joining the Community, agreed to adopt the generalized preference system by January 1, 1974. Ireland agreed to grant such preferences for all products by December 31, 1975.