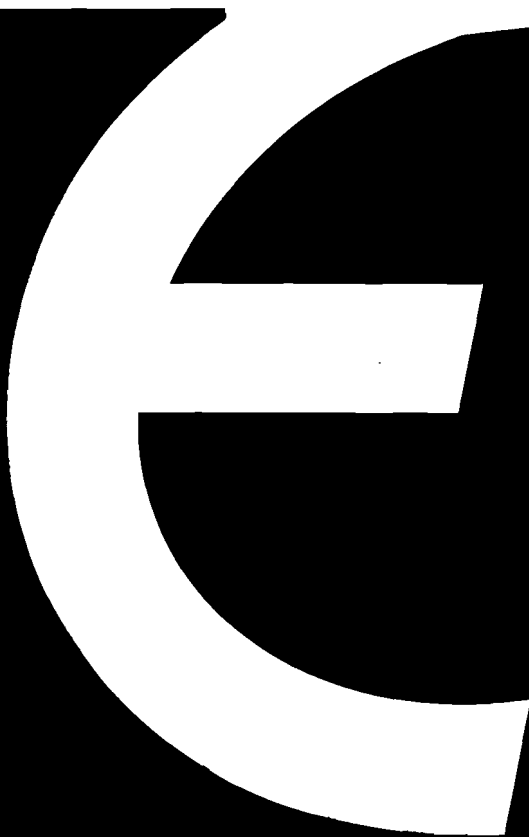


The European Community in the world



European File

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The European Community plays an extensive and increasingly important role in international affairs. Legally, it is a separate entity with all the powers of a sovereign State, within its fields of competence. Thus, as the European Court of Justice has ruled, the Community has the power to seal contracts with third countries across a whole range of areas, set out in the European Treaties: the creation of a customs union, and common policies in key sectors such as external trade, agriculture and transport. To achieve these objectives, the Member States have formally transferred some of their sovereign powers to the Community.¹

There are numerous proofs of the importance of the Community's international role. More than 100 countries have diplomatic relations with the Community. The Community has observer status at the United Nations and in some of its specialist organizations. It has links with other international organizations, such as the OECD and the Council of Europe. It takes part in the Western 'summits', alongside the United States, Japan and four of its own Member States. It takes part or has taken part in a variety of international conferences, on trade (the GATT), development (Unctad, Unido, the North-South dialogue) and East-West cooperation (CSE). In a number of forums, including the GATT and the North Atlantic Fisheries Organization, the Community has even taken over complete responsibility for representing its Member States.

The Community has signed agreements with about 120 countries as well as about 30 multilateral agreements. When such agreements deal with areas within its exclusive competence, such as international trade or sea fisheries, the Community takes part alone on behalf of its Member States. In other instances (conventions on the environment, transport, etc), the Community takes part alongside its Member States.

International trade² constitutes the single most important, but not the only, plank of the Community's external relations. In 1982, Community imports and exports (excluding trade between Member States) accounted for an average of 12.6% of its gross domestic product, compared to 7.5% for the United States and 12.5% for Japan. Armed with a common customs tariff, the necessary corollary of an internal customs union, the Community has sole responsibility for external trade policy. It therefore has the power to negotiate international trading rules; to draw up customs procedures, franchises and import quotas; and to ensure, within the framework of international law, protection against unfair foreign competition. The Community negotiates international agreements on export credits and its Member States are gradually harmonizing their policies in this area. Trade agreements with third countries are negotiated by the European Commission and considered by the European Parliament before being sent to the trade ministers of the Ten for their approval.

The Community has therefore taken a place on the world stage as a trading partner in its own right, as one of the largest trading blocs in the world and one

¹ This file updates and replaces our No 2/82.

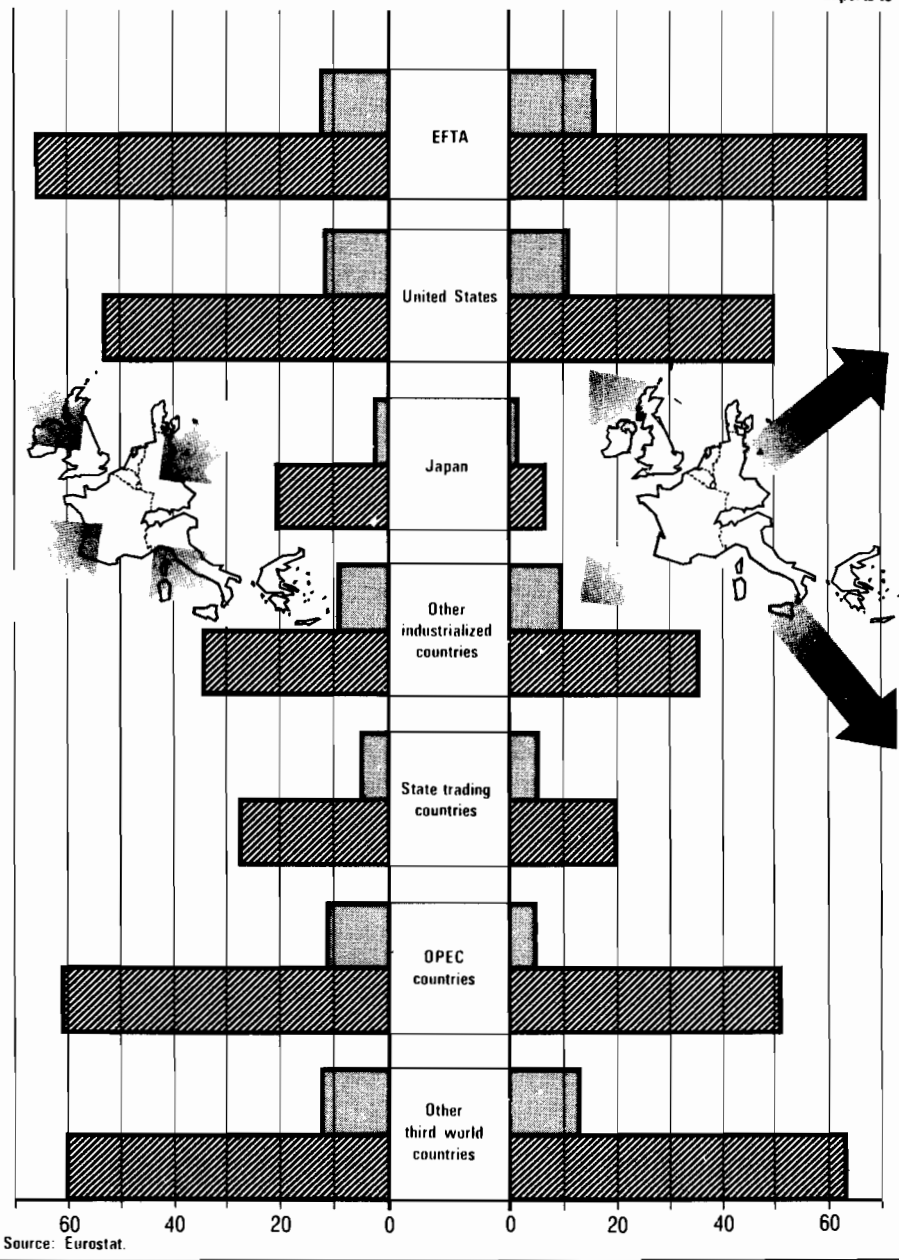
² See *European File* No 19/83: 'The external trade of the European Community'.

The external trade of the Community (in '000 million ECU)

1972
1983

Imports from

Exports to



whose activities increasingly extend beyond trade questions alone. It is, in fact, difficult to separate issues affecting world trade – of which the Community was responsible for 18.7% in 1982, excluding internal trade, compared to 14.5% for the United States and 8.4% for Japan – from a whole body of international dealings where the voice of 273 million Europeans weighs more heavily than those of the Member States acting alone.

The Community has opened dialogues with other industrialized countries on questions of trade, the economy, research and the environment. It contributes, through its own programmes, to the development of the third world. It also encourages the coordination of development policies in its Member States by urging them to speak with a single voice in major discussions such as the North-South and Euro-Arab dialogues.

Community countries retain sovereign control over their foreign policies. But they have agreed to consult one another through a permanent process of political cooperation, through which they coordinate their approaches to specific issues, such as the Palestinian problem, relations with southern Africa, Afghanistan, Central America and disarmament.¹

The development of the Community's external relations is in the interests of all Community citizens:

- It helps to safeguard their trading and economic future and reduce world tension. While ensuring conditions for the orderly restructuring of problem industries, the Community has come down clearly in favour of the greatest possible trade freedom. This is essential for the preservation of living standards in a Community which imports about 90% of its raw materials and which must find foreign markets for its own industrial and agricultural products. The Community also attaches great importance to the development of the third world, both to ensure new outlets for industrialized countries (in 1983, the third world took 38% of Community exports) and to diminish the risk of conflict which the continuation of existing inequalities could provoke. Community aid to the third world is, also, all the more, acceptable for its freedom from political strings.
- It gives Member States greater weight in a world dominated by continental super-powers. To quote an example, the Community has managed to persuade its external trading partners to moderate their exports of steel and textiles. It has agreed with the United States and Japan ceilings on petrol imports to slow down the rise in oil prices. It may shortly be able to launch joint, and therefore more effective, negotiations on behalf of all its Member States with countries which export raw materials.

¹ See *European File* No 13/83: 'European Political Cooperation'.

General and sectoral policies

- In general terms the liberal nature of Community trade policy can be seen in:
 - The industrial field: excluding a number of zero tariffs, the weighted average of Community customs duties – already one of the lowest in the world – is to be reduced to 7.5% by 1988, as a result of the ‘Tokyo Round’ negotiations in the GATT between 1973 and 1979. Other reciprocal reductions in duties were negotiated in the earlier Kennedy Round (1963-67) and Dillon Round (1960-61).
 - The agricultural field: the preference given to Community produce has not prevented the Community from becoming the world’s largest agricultural importer. It takes about one quarter of all world food exports and, unlike the United States, has a trade deficit in agricultural produce, which ran to about 14 billion ECU in 1983.¹
 - Relations with the third world: generalized preferences allow all third world countries duty free exports of finished and semi-finished goods to the Community. Quantitative limits are fixed but do not apply to the least developed countries. Zero or reduced tariffs are also applied to many agricultural products and special agreements facilitate exports of craft products from a score of countries.²
- To encourage the development of the third world, the Community has entered into agreements with a host of countries, which will be described below. In addition, the Community gives non-associated countries, mainly in Asia and Latin America, technical and financial aid (215 million ECU in 1983) and runs a general food-aid programme, covering cereals (915 000 tonnes in 1983), milk powder (150 000 tonnes) and butteroil (36 000 tonnes), worth a total of more than 550 million ECU. The Community also takes part, through the North-South dialogue and the United Nations, in the search for a new world economic order which will speed the development of the third world as a whole.
- In addition the Community has negotiated a number of agreements dealing with certain products and activities which are not of an exclusively commercial nature:
 - In the crisis-hit textiles sector, several dozen low-cost producing countries from every continent have agreed, as part of an international treaty, to moderate, from 1978 to 1982 and again from 1983 to 1986, the growth of their exports of certain products to the Community.

¹ 1 ECU (European currency unit) = about £ 0.59, Ir. £ 0.73 or US \$ 0.82 (at exchange rates current on 12 June 1984).

² See *European File* No 9/81: ‘Generalized preferences for the third world’.

- In the steel sector, also struggling, the 15 countries which export most steel to the Community have been allowed to maintain their traditional trade flows, if they respect certain price rules.
- In the fisheries sector, the Community has negotiated treaties with a dozen European, American and African countries with Baltic, Atlantic and Indian Ocean coasts. These agreements fix catching rights within the new 200 mile national economic limits.
- The Community has also signed scientific cooperation agreements with about 90 third countries. A range of scientific research programmes have been undertaken jointly by the Community and its neighbours in Western Europe. A specific third world research programme has recently been launched. Cooperation agreements on the peaceful use of nuclear energy link the Community to the United States, Canada and Brazil. Information exchanges on the environment have been established with Sweden, Norway, Switzerland, Austria, Canada, the United States and Japan. A number of transport agreements have been signed with Switzerland, Austria and Yugoslavia.

Relations with other Western European countries

- *Countries of the European Free Trade Association:* In 1973, following the accession to the Community of Ireland, Denmark and the United Kingdom, the latter two being EFTA members, the Community set up a free-trade area covering more than 310 million consumers with the remaining EFTA countries (Portugal, Switzerland, Austria, Sweden, Norway, Iceland and Finland). Customs duties and restrictions on trade in manufactured goods were abolished and a number of reciprocal concessions made for agricultural produce. In addition, special arrangements were made for Iceland, which is heavily dependent on fish exports. Portugal, the least developed of these countries, is soon to accede to the Community. Since the re-establishment of democratic government, it has received Community aid (grants, loans from the European Investment Bank) totalling 760 million ECU. Trade between EFTA and the Community accounts for 21% of the Community total (more than with the United States) and between one third and three fifths of the trade of EFTA countries. Cooperation between the two groups is developing in a number of fields, including research, the environment, fisheries, steel and transport.
- *Mediterranean countries:* a preferential trade agreement has been signed with Spain, which, like Portugal, is due to join the Community shortly.¹ In addition, the Community has concluded association agreements with Turkey, Cyprus and Malta, which are to lead gradually to accession or a customs union. The bulk of the manufactured exports of these countries can already enter the

¹ See *European File* No 17/83: 'The enlargement of the European Community'.

Community free of duties or quotas and concessions have been agreed for numerous agricultural products. On the other hand, the pace of dismantlement of customs barriers to Community exports is more gradual, in order to take account of the difficulties faced by these countries, which are still developing. For the same reasons, the Community has undertaken cooperation programmes in a number of areas and given grants and loans from the European Investment Bank totalling 310 million ECU for Turkey between 1976 and 1981, 26 million ECU for Malta between 1979 and 1983 and 44 million ECU for Cyprus between 1984 and 1988. Spain has also benefited since 1981 from a financial cooperation agreement, providing EIB loans worth 300 million ECU. A wide-reaching cooperation agreement was signed in 1980 with Yugoslavia, which has been granted customs concessions and EIB loans worth 200 million ECU over five years.

Relations with other developed countries

The Community has particularly extensive relations with the United States, Japan, Australia and New Zealand. High-level consultations are frequently held between these trading partners. Special mention should be made of Canada, which signed an outline agreement for economic and trade cooperation with the Community in 1976. This agreement is non-preferential but includes machinery for cooperation in areas such as trade, industry and science.

- *United States and Japan:* the Community trade deficit with these countries stood at about 16 billion ECU in 1983, including about 13 billion ECU for Japan alone. During the Tokyo Round negotiations, the Community managed to obtain the abolition of a number of trade barriers. Japan imports three times less from the Community than it exports to it. The Community has therefore been pressing for an opening up of the Japanese market and has started an export promotion campaign in Japan. It has also negotiated, in a number of 'sensitive' sectors, voluntary export restraint agreements with the Japanese. Protectionist tendencies which break out from time to time in the United States have also been the subject of a number of negotiations.¹ Finally, the Commission has drawn up an industrial and research strategy to help Community industry to face up to international competition.
- *Australia and New Zealand:* agricultural trade with Australia, and especially New Zealand, has caused problems for these countries which have traditionally supplied the British market with meat, notably lamb, and dairy products, which are already in surplus in the Community. A partial exemption has been granted from the principle of Community preference for fixed quantities of meat and a quota of New Zealand butter. Australia has been partly compensated for a reduction in its agricultural exports to the Ten by an increase in its sales of minerals and energy raw materials.

¹ See *European File No 9/83: 'The Europe-United States-Japan trade controversy'*.

Relations with State-trading countries

From 1974 onwards, the Community has proposed trade agreements with the various State-trading countries of the Eastern bloc to replace existing agreements between these countries and individual Member States. These proposals have formally been ignored but six countries have negotiated agreements with the Community, mainly of a sectoral nature:

- *Chinese People's Republic*: this country began diplomatic relations with the Community in 1975. A framework trade agreement was signed in 1978, followed up by long-term agreements on textile trade.
- *Romania*: was the first State-trading country of the Eastern bloc to negotiate a textile trade agreement with the Community in 1976. Romania subsequently signed an agreement on trade in steel and, in 1980, a long-term agreement on industrial trade and an agreement setting up a joint committee.
- *Hungary, Poland, Bulgaria and Czechoslovakia*: have negotiated long-term textile trade agreements and annual steel arrangements.

Remaining Community trade with State-trading countries is controlled by the Community's global trade policy. Despite the existence of a substantial trading deficit (about 8 billion ECU in 1983), the Community strives to maintain traditional trade flows and even to expand them when circumstances in Community industry permit it. Efforts to harmonize arrangements in Community countries for export credits and rules and consultation procedures for cooperation agreements with third countries obviously apply to dealings with State-trading countries. Between 1977 and 1980, negotiations were held between Community representatives and, amongst others, Comecon, the economic organization linking Eastern countries except China. But they failed because the two parties had different conceptions of the desirable contents of a possible agreement. Two other facts should be borne in mind: no Comecon country has so far agreed to establish diplomatic relations with the Community in its own right; since December 1981, the Community has provided humanitarian aid directly to the Polish people (food, medical and health equipment, worth more than 40 million ECU) through non-governmental organizations.

Relations with developing countries

In terms of both public aid and trade, the Community is the single largest economic partner of third world countries. Besides its overall activities to encourage development, mentioned above, the Community has established special relationships with a range of countries and groups of countries in the third world:¹

¹ See also *European File* No 3/83: 'The Community and developing countries'.

- *Southern Mediterranean and Middle East*: eight countries (Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon and Syria) signed between 1976 and 1977 trade, technical, financial and industrial cooperation agreements, providing, amongst other things, for free access for their manufactured goods to the Community market, customs concessions for certain agricultural products, and financial aid (including grants and European Investment Bank loans) totalling 1 015 million ECU between 1981 and 1986. In addition, in June 1975, a Euro-Arab dialogue was launched on subjects such as the transfer of technology, encouragement of investment, trade cooperation, agricultural development, labour problems and cultural exchanges. The Community faces three major problems: its trade deficit with oil exporting countries (about 9 billion ECU in 1983); the need to maintain as far as possible the trading advantages for other Mediterranean countries after the accession of Spain and Portugal; and relations with other countries of the Middle East in changed international conditions (the Commission has already established a working relationship with the Gulf Cooperation Council and a non-preferential agreement with North Yemen is shortly expected to enter into force, covering trade, economic cooperation and development).
- *Africa, the Caribbean and Pacific*: 65 States from these regions, known as the ACP countries, have signed the Lomé Convention, launched in 1975, renewed in 1979 and shortly due for renewal a second time. The convention frees signatories from customs duties on 99.5% of their exports to the Community. Technical and financial aid will be given by the Community in the period 1980 to 1984 to the value of 5.7 billion ECU, in the form of grants, loans under special conditions, long-term EIB loans, usually with a 3% interest rate subsidy, and risk capital transactions. The convention has also broken new ground by establishing a system designed to stabilize export earnings of the ACP countries for a range of raw materials. When the export earnings of the ACP nations from the Community falls below the average of the previous four years, the Community compensates the countries concerned with repayable advances, in the case of richer nations, and non-repayable grants in the case of the poorer ones. In 1979 a similar mechanism was created to guarantee ACP countries a certain level of production or export earnings from minerals. It was also decided to substantially boost cooperation in the energy, industry and agriculture fields.
- *Asia*: from 1974 to 1976, the Community concluded non-preferential trade cooperation agreements with the countries of the Indian sub-continent: Bangladesh, India, Pakistan and Sri Lanka. The Community also gives preferential treatment to Indian sugar exports, similar to the terms granted to the ACP countries. The generalized preferences given to all third world countries have been extended to include certain vital exports for Bangladesh (jute), India (jute and cocoa) and Sri Lanka (cocoa). The Community's Asian policy has made rapid strides in recent years. In 1980, a trade, economic and development cooperation agreement was signed with the countries of the Association of South-East Asian Nations (Indonesia, Malaysia, the Philippines, Singapore

and Thailand), who, together, represent a rapidly growing market. In 1981, the agreement with India was broadened to include economic and development cooperation.

- *Latin America*: the European Commission has recently proposed a substantial strengthening of relations between the Community and Latin America. A regular dialogue has already been established at ambassadorial level between representatives of the Ten and Latin American countries. Economic and trade cooperation agreements have been signed with Mexico in 1975, with Brazil in 1980 and with the countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela) in 1983. Latin American countries also benefit from generalized preferences and other measures to favour their exports. Their trade with the Community has traditionally been substantially in their favour (about 8 billion ECU in 1983). The Community supports the process of regional integration in Latin America and financial and technical aid is increasing. In 1982 the sum set aside for cooperation with Central America was increased to more than 100 million ECU, through new programmes for rural development and restructuring.



The fundamental principles of the Community's external policy are the preservation of free trade and the development of the third world. Its aim is to promote the broader interests of Community citizens in a troubled world where the Community – if given the means – can speak with a louder voice than individual Member States ■

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