

The European Community in the world



European File

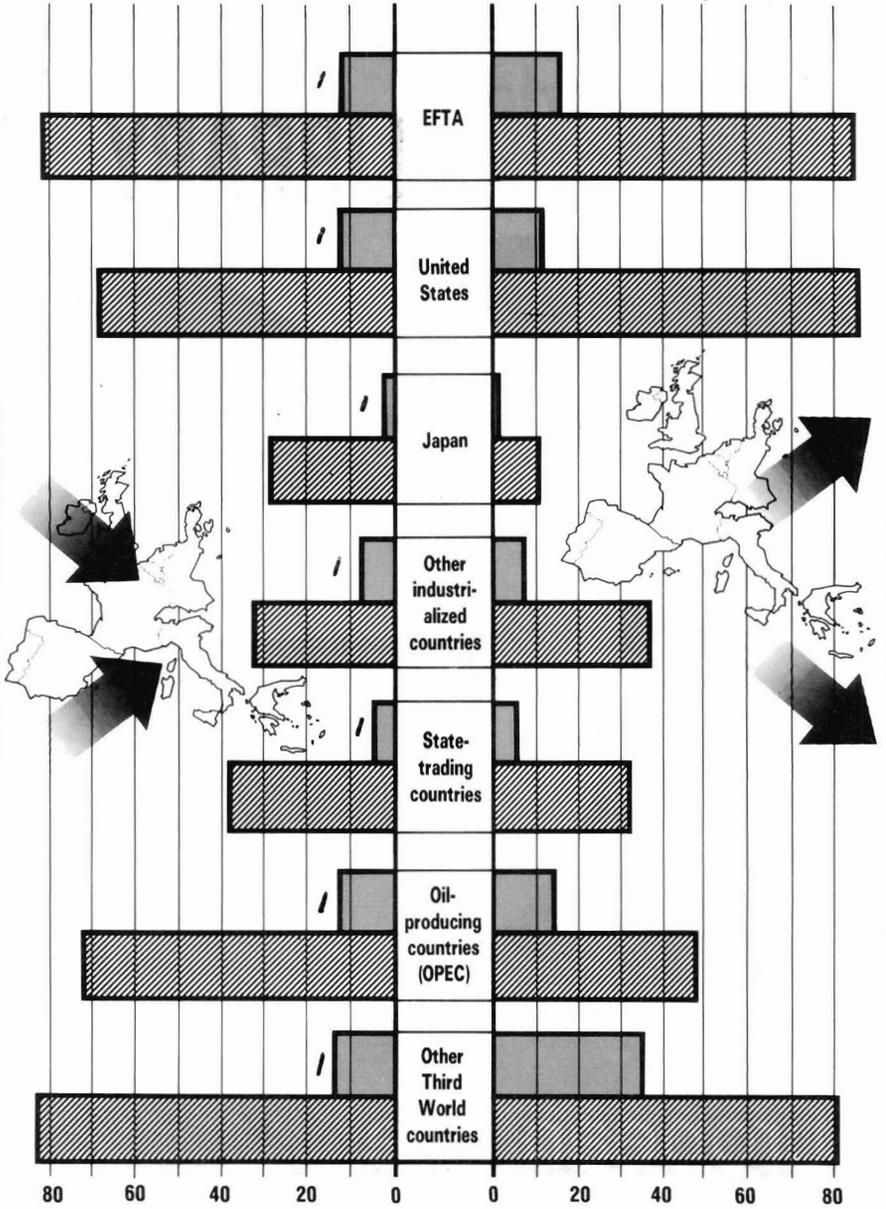
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16/86
October 1986

**External trade of the Community of Twelve
(in '000 million ECU)**

Imports from

1972
1985
Exports to



Source: Eurostat.

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 files of competence. Thus it can seal contracts with third countries on the whole range of matters that fall within the objectives of the European Treaties: the creation of a customs union and common policies in key sectors such as external trade, agriculture, transport etc. To achieve these objectives, the Member States have formally transferred some of their sovereign powers to the Community.¹

In the interest of all Community citizens

There are numerous proofs of the importance of the Community's international role. Some 130 countries have diplomatic relations with the Community as such. In the GATT (General Agreement on Tariffs and Trade) and in the North Atlantic Fisheries Organization, the Community, through the European Commission, takes the place of Member States and speaks on their behalf. The Community participates in the work of the OECD, in which the western industrialized countries meet, and it has observer status at the United Nations and in some of its specialized organizations. It has links with other international organizations, such as the Council of Europe. It takes part in the western 'summits' with the United States of America, Canada, Japan and some of its own Member States. It negotiates, or has negotiated, at numerous international conferences, both global (particularly in the UN framework) and regional: on East-West cooperation in Europe, for example.

The Community has signed agreements with more than 120 countries as well as some 30 multilateral agreements. When these agreements cover a subject in which it has exclusive competence — international trade or sea fisheries, for example — 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 the Member States.

International trade constitutes the most important, but not the only, plank of the Community's external relations. In 1984, imports and exports of the 12 countries that are now members of the Community (excluding trade among themselves) represented an average of 12.5% of their Gross Domestic Product. This compares with 7.5% for the United States and 13.5% for Japan. The Community's share of world trade, according to GATT figures, was 18%, as against the United States' 17% and Japan's 9%. Armed with a common customs tariff, the necessary corollary of an internal customs union, the Community has responsibility for external trade policy. Acting on proposals from the European Commission, it has the competence to negotiate international trading rules; to draw up customs procedures, franchises and import quotas; to ensure, within the framework of international regulations, protection against unfair foreign competition and so on. The Community negotiates international agreements on export credits and its Member States are gradually

¹ This file replaces our No 14/84.

harmonizing their policies in that area. Trade agreements with third countries are negotiated by the European Commission and submitted to the European Parliament before being approved by the Community's Council of Ministers.

The Community has therefore taken a place on the world stage as a trading partner in its own right, one of the largest, with a role that increasingly extends beyond trade questions alone. It is, in fact, difficult to separate trade from other aspects of international relations and the combined forces of 321 million Europeans carry more weight than would Member States acting in isolation.

The Community conducts a dialogue with other industrialized countries, not only on trade, but also on the economy, research, the environment etc. It contributes to the development of the Third World, both through its own programmes and by encouraging (on the basis of Commission proposals) the coordination of Member States' positions and activities both on the ground and in international gatherings.

Community countries retain sovereign control over their foreign policies. However, the common preoccupations of European public opinion are expressed in the big debates of the European Parliament and the Member States have undertaken to consult one another through a permanent process of political cooperation. European positions have been enunciated in this way on such subjects as human rights, the Palestinian problem, South Africa, Afghanistan, Central America, disarmament and terrorism.

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

- It helps to safeguard their economic future and reduce world tension. To those ends, the Community is particularly concerned with:
 - Preserving freedom in international trade. This is essential for living standards and employment levels in a continent which imports about 90% of its raw materials and must find external markets, particularly for its industrial output and processed agricultural products. Obviously, this state of affairs obliges Europe to take care to maintain its competitiveness; strategies for industry and research have been worked out by the European Commission with the aim of enabling Community industry to maintain or recover its place in international competition.
 - Developing the Third World. This should both provide new outlets for the industrialized countries (in 1985 the Third World absorbed 34% of Community exports) and diminish the risk of conflict which the continuation of existing inequalities could provoke. Community aid to the Third World is all the more acceptable to the recipients insofar as there are no political strings attached.
- The Community gives Member States greater weight in a world dominated by great continental powers. It has, for example, been able to help restructure

industries in difficulty by persuading its external trading partners to moderate their exports of steel and textiles. It is now opposing the protectionist tendencies that are appearing in some quarters and is preparing to play a key role in the new GATT negotiations on liberalizing international trade.

General and sectoral policies

- The liberal nature of Community trade policy can be seen in:
 - Industry: taking account of a number of zero tariffs, the weighted average of Community customs duties – already one of the lowest in the world – has just been reduced to less than 5%, following the ‘Tokyo Round’ negotiations in the GATT between 1973 and 1979.
 - Agriculture: the preference given to Community produce does not prevent the Community from being the world’s leading agricultural importer. It takes about one-fifth of world agricultural and food exports and, unlike the United States, has a large trade deficit in the sector.
 - 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 in certain cases, 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.
- To encourage the development of the Third World, the Community has entered into agreements with a host of countries; these will be described below. Financial and technical assistance is also given. At first this was concentrated on Africa and the Mediterranean basin, then it was extended to the countries of Asia and Latin America, to which 280 million ECU has been committed for 1986.¹ The Community is also developing its cooperation with the Third World in general in such fields as energy, trade promotion, training and aid for refugees. Increasing emphasis is put on aid for rural development and on the promotion of self-sufficiency in food. However, the Community gives food aid to countries in difficulty, in the form of cereals (nearly 1 400 000 tonnes in 1985), milk powder (about 109 000 tonnes) and other products; the total value of this aid in 1985 was in the region of 743 million ECU. Finally the Community contributes, through the UN and its specialized agencies, to the search for consensus on policies to speed up Third World development.
- In addition, the Community has negotiated numerous agreements dealing with certain products and activities that are not of an exclusively commercial nature:

¹ 1 ECU (European Currency Unit) = about £0.69, Ir. £0.76 or US \$1.0 (at exchange rates current on 8 September 1986).

- Industrial sectors in difficulty. The 14 countries that export most steel to the Community have been allowed to maintain their traditional trade, on condition that they observe certain price rules. In the textiles sector, several dozen low-wage countries, spread across all continents, have agreed, as part of an international accord, to moderate the growth of some of their exports to the Community; these agreements have been in force since 1978 and are being renegotiated.
- Fisheries. The Community has negotiated agreements with a dozen third countries (European, American and African) with Baltic, Atlantic and Indian Ocean coasts. These agreements cover catching rights within the new 200-mile national economic limits.
- Research and science. The Community is involved in cooperation with about a hundred countries and has launched a specific Third World research programme. Much research work is carried out jointly with neighbouring Western European countries that are members of EFTA; recent bilateral agreements are intended to further that cooperation. Agreements have also been concluded with Brazil, Canada and the United States on the peaceful use of nuclear energy, and with Canada, the United States and Japan on nuclear fusion.
- The environment. Agreements on exchange of information have been concluded with Sweden, Norway, Switzerland, Austria, Canada, the United States and Japan.
- Transport. A number of agreements have been signed with Austria, Switzerland and Yugoslavia.

Relations with EFTA countries

Since 1973 the Community has formed a free-trade area with the countries of the European Free Trade Association; at present these are Switzerland, Austria, Sweden, Norway, Iceland and Finland. Customs duties and restrictions on trade in manufactured goods were abolished, to the benefit of 353 million consumers, and some reciprocal concessions were made for agricultural produce. Trade between EFTA and the Twelve represents 21.3% of all Community trade (a little more than EEC-US trade) and between a third and three-fifths of EFTA's imports and exports. At a meeting in Luxembourg in 1984, the two groups decided to create a big European economic area by extending their cooperation beyond free-trade agreements. That is now happening in economic, monetary and industrial policy, in research and technology and in regard to the environment, fisheries, the steel industry and transport.

Relations with other developed countries

The frequency of high-level contacts shows the intensity of the Community's relations with Canada, the United States, Japan, Australia and New Zealand.

- *Canada.* In 1976 the Community and Canada concluded a framework agreement for commercial and economic cooperation. This non-preferential agreement establishes mechanisms for cooperation in areas such as trade, industry and science.
- *The United States.* The Community is watchful for the protectionist tendencies that break out from time to time in the United States and which have increased ever since dollar exchange rates turned the traditional US surplus in trade with Europe, into a deficit. The Community takes advantage of its own cohesiveness to defend its interests, whether they involve steel, citrus fruit or agricultural exports to third countries or to the new Member States, Spain and Portugal. If necessary it is ready to take countermeasures, as allowed under the GATT. However the Community prefers negotiation: the United States and Europe are each other's main trading partners and the quality of their relations determines whether international trade remains open and liberal.
- *Japan.* Community trade with Japan showed a deficit of more than 18 000 million ECU in 1985. The Community has taken measures to promote its exports to Japan and has obtained, in a number of sensitive sectors, promises that Japanese exports will be restrained. It is, however, the whole balance of relations that needs to be reviewed. Japan imports three times less from the Community than it exports to it. The Community insists that the Japanese government fulfill its promise to further open up its market. Meanwhile it intends to develop its relations with Japan in all fields, so as gradually to help restore balance.
- *Australia and New Zealand.* Because of the prime importance of a limited number of agricultural products in the exports of these two countries, the Community's increasing role in world trade in these products (particularly dairy produce) has a considerable influence on mutual relations. Some positive initiatives taken unilaterally (revision of agricultural policies) and jointly (more political contacts, technical cooperation, undertakings of various kinds) have led to a perceptible improvement in relations.

Relations with State-trading countries

From 1974 onwards the Community proposed trade agreements with the various State-trading countries to the East, to replace existing agreements between those countries and several Member States. The proposal never received an official response, but six of the countries in question have since negotiated agreements, generally of a sectoral character, with the Community:

- *The People's Republic of China* has had diplomatic relations with the Community since 1975. A framework trade agreement was signed in 1978, followed in 1985 by a trade and economic cooperation agreement. Long-term agreements on trade in textile products have also been concluded.
- *Rumania* was, in 1976, the first State-trading country to negotiate a textile trade agreement with the Community. It subsequently agreed arrangements on trade in steel and agricultural produce and, in 1980, concluded a long-term agreement on industrial trade and an agreement setting up a joint committee.
- *Hungary, Poland, Bulgaria and Czechoslovakia* have negotiated long-term agreements with the Community on textile trade as well as arrangements for steel and some agricultural products.

Subject to the agreements, trade with State-trading countries is regulated by the Community's autonomous trade policy. Despite the existence of a large trade deficit, the Community strives to maintain traditional trade flows and even to expand them when the circumstances of Community industry permit. Negotiations conducted from 1977 to 1980 by representatives of the Community and the East-bloc economic grouping, Comecon, were unsuccessful. The Community replied at the beginning of 1986 to a new request from Comecon and declared itself ready to resume the dialogue in order to establish official relations with that body. It also asked the European Comecon countries if they were disposed to establish normal bilateral relations and, in particular, to have diplomatic missions accredited to the Community. The responses from these countries, in April-May 1986, were positive; their governments have indicated they are ready to establish bilateral relations with the Community and to deal with trade questions on a contractual basis. Exploratory discussions have already taken place with a number of countries, as a prelude to negotiating agreements.

Relations with developing countries

In terms of both trade and public aid, the Community is the single largest economic partner of the countries of the Third World. Besides its general activities to encourage development, mentioned above, it has established special relationships with many countries and groups of countries.

- *Mediterranean countries.* The Community has concluded association or co-operation agreements with 12 countries in the framework of a global Mediterranean policy, the objective of which is to assist the economic development of those countries and to encourage a harmonious evolution of trade and relations with them. With the enlargement of the Community to include Spain and Portugal, the Mediterranean policy enters a new phase: it must see to the continuation of exports from the countries in question to the Community (negotiations are underway) and develop economic and financial cooperation.

- Northern Mediterranean. A cooperation agreement was concluded with Yugoslavia in 1980, under which that country has duty-free access to the Community for most of its industrial products and receives loans of 200 million ECU over five years from the European Investment Bank. The Community also has association agreements with Turkey (1963), Malta (1971) and Cyprus (1973). The agreements are intended to lead gradually to membership in Turkey's case and to customs union for the other two countries. Negotiations are under way with Cyprus in this regard. As regards Turkey, a procedure for the progressive normalization of relations is under way, as evidenced by the recent meeting of the Association Council, the first held at ministerial level since the military intervention of 1980. Under the agreements, industrial exports from Turkey, Malta and Cyprus enter the Community free of customs duty or quantitative restrictions; there are also concessions for many agricultural products, while customs duty on Community exports to the three countries is reduced. The Community has extended its cooperation efforts into many fields and has given financial aid as well as loans from the EIB. Cyprus stands to receive 44 million ECU over five years and Malta, 29.5 million.
- Southern Mediterranean. In 1976 and 1977 eight countries signed trade, industrial, technical and financial cooperation agreements with the Community: Algeria, Morocco, Tunisia, Egypt, Israel, Jordan, Lebanon and Syria. The agreements provided, among other things, for free access for the countries' industrial exports to the Community market, specific concessions for some of their agricultural produce and financial aid (grants and EIB loans) totalling 1 015 million ECU between 1981 and 1986.
- *Near East.* In 1985 the Community concluded a non-preferential agreement with North Yemen, covering trade, economic cooperation and development. Exploratory discussions with the Arab countries of the Gulf could lead to the negotiation of another agreement. A Euro-Arab dialogue was begun in 1975, involving also several Mediterranean countries and covering topics such as transfer of technology, encouragement of investment, trade cooperation, agricultural development, labour problems and cultural exchanges.
- *Africa, the Caribbean and the Pacific.* 66 ACP States have signed the Lomé convention, which was launched in 1975 and renewed in 1979 and 1984. It frees the signatories from all customs duties on 99.5% of their exports to the Community, with no reciprocal concessions required on their part. The Community also gives them technical and financial aid, amounting to 8 500 million ECU for the period 1985-90 (grants, loans under special conditions, long-term low-interest loans from the EIB and risk capital transactions). The Community has also established a quite original system for stabilizing export earnings from a range of raw materials: when the ACP countries' export earnings from the Community fall below the average of preceding years, the Community gives compensation in the form of repayable advances, for the less poor countries, and non-repayable grants for the others. In 1979 a similar

mechanism was created to guarantee ACP countries a certain level of production or export potential for minerals. In 1985 it was decided to strengthen cooperation in a range of sectors: rural development, energy, industry, fisheries, social and cultural problems etc.¹

- *Other Asian countries.* A cooperation agreement covering trade, economic and development matters was signed in 1980 with the countries of the Association of South-East Asian Nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand). The Community had earlier, between 1974 and 1976, concluded non-preferential trade cooperation agreements with countries on the Indian subcontinent: Bangladesh, India, Pakistan and Sri Lanka. The agreements with India and Pakistan were extended to cover economic and development cooperation, the first in 1981 and the second in 1986. In addition, the Community gives preferential treatment to Indian sugar exports, similar to that afforded to ACP sugar; the generalized preferences given to Third World countries have been extended to include certain exports vital to Bangladesh (jute), India (jute and cocoa) and Sri Lanka (cocoa).

- *Latin America.* Economic and trade cooperation agreements have been concluded with Mexico in 1975, with Brazil in 1980 and with the countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru and Venezuela) in 1983. There is also a trade agreement with Uruguay, concluded in 1974, and, since 1985, a cooperation agreement with the countries of the Central American isthmus: Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador. The Community and its Member States have also instituted a political dialogue with those six countries and Colombia, Mexico and Venezuela, with the aim of promoting peace, democracy and economic development in Central America.

All Latin America countries benefit from generalized preferences and other measures that help their exports. Their balance of trade with the Twelve has traditionally been in their favour. The Community supports the process of regional integration in Latin America and its financial and technical aid is increasing: in 1985 aid to the subcontinent exceeded 147 million ECU. The accession of Spain and Portugal to the Community should help further to strengthen the relationship between Europe and Latin America.



Freedom of trade and development of the Third World are the principal axes of the Community's external relations policy. The aim is to promote the broader interests of Community citizens, in a troubled world in which the Community – if given the means – can speak with a voice louder than those of its individual Member States ■

¹ See also *European File*, No 9/85: 'The European Community and the Third World'.

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