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E.C. ANSWERS U.S. CONCERNS ABOUT ENLARGEMENT

On January 1, Spain and Portugal became the newest members of the European Community after seven years of complex negotiations. The enlargement from 10 to 12 members, and from 270 million to 320 million people, makes the Community a stronger partner to the United States and its other allies. The joining of two old and famous European states recently returned to democracy will reinforce the political stability of Western Europe.

But the Community's trading partners are concerned about how the E.C. enlargement will affect them in terms of trade. The U.S. has objected to enlargement provisions affecting its exports of corn, sorghum and soybeans to Spain and Portugal. It also complains that the E.C. has not followed procedures outlined in the international trading rules.

The Community is conscious that there will be changes, both positive and negative, for its trading partners. But it believes the overall balance of commercial benefits and disadvantages derived from the changes must be assessed, not the effect on any particular product viewed in isolation.

The Community projects that in terms of trade opportunities, the U.S. will gain from the enlargement far more than it will lose. While some U.S. farm exports may be adversely affected, others will benefit. In any case, U.S. manufacturers will benefit because the Community's industrial tariffs are much lower than those of Spain and Portugal.

GATT OBLIGATIONS

The Community rejects the complaint about procedures. It has acted in precisely the same way as in previous E.C. enlargements. The Community intends to fulfill its obligations under the General Agreement on Tariffs and Trade (GATT) in good faith, fully respecting its trading partners' rights.

In cases like this when a customs union is expanded, the international trading rules are clear and so are the precedents. As required by Article XXIV/6 of the GATT, the Community and its trading partners will assess the

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impact of the enlargement on mutual trade, and negotiate appropriate compensation for any withdrawal of previously negotiated trade concessions.

The Community supported the establishment on February 12 of a GATT working group to look at the whole enlargement question. It has informed its trading partners that it is ready to enter into Article XXIV/6 negotiations at any time.

The E.C. took part in negotiations under this article in 1960-62, after the Community was founded, and again in 1973-74 when the six original E.C. members were joined by Denmark, Ireland and the United Kingdom. The negotiations were successfully terminated and the E.C. compensated its trading partners.

U.S. COMPLAINTS

A major sector of the enlargement treaty covers agriculture. (See European Community News No. 9/1986.) Over a 10-year transition period, tariffs and other trade barriers between Spain and Portugal and the "old" Community will disappear, and the two new member states will adopt the Community's external customs tariffs and Common Agricultural Policy.

The United States has expressed concern about the following measures that took effect March 1 under the E.C.'s treaty with Spain and Portugal:

- — The replacement of Spain's import duty on corn and sorghum, previously bound under the GATT at 20 percent, by the Community's system of variable levies.
- — The temporary reservation of 15 percent of the Portuguese grain market for Community suppliers.
- — A temporary quota on imports of soybeans into Portugal.

E.C. ANSWERS AND COMMENTS

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

Corn and Sorghum. After it abolished its import monopoly in 1984, Spain replaced the 20 percent 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, which is based on the difference between the world market price and the E.C.'s domestic price, should not significantly affect U.S. export opportunities in Spain.

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The Community is confident that compensation for the withdrawal of the trade concession can be determined within the context of the Article XXIV/6 negotiations.

Neither the Community nor Spain is self-sufficient in corn and sorghum, and they will continue to import them. The total amount of U.S. exports of these grains to the Community is not at risk.

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

Portuguese Reservation for E.C. 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. A significant portion of U.S. grain exports to Portugal took place under noncommercial conditions, covered by food aid and credit programs.

The 15 percent reservation for E.C. suppliers will be in force for four years while this monopoly is progressively dismantled.

Soybeans into 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 five years by a more transparent quota system that should not affect trade opportunities for U.S. exports.

During the five-year period, Portugal will gradually reduce its tariff on soybeans to the E.C. 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 E.C.

In conclusion, the Community does not ask the U.S. to forfeit its GATT rights or to pay the economic consequences associated with the enlargement. It calls on its trading partners to use the procedure prescribed by GATT to negotiate a fair and satisfactory settlement.