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E.C.-U.S. ENLARGEMENT DISPUTE: E.C. WARNS AGAINST OPEN CONFLICT

The European Community today denounced U.S. plans to impose quotas and raise tariffs on E.C. exports, and said it would be obliged to take "appropriate action to defend its interests."

The U.S. measures were announced today in response to provisions in the Community's enlargement treaty with Spain and Portugal that affect U.S. exports such as corn, sorghum and soybeans.

Willy De Clercq, E.C. Commissioner for External Relations and Trade Policy, said the U.S.'s confrontational approach "risks leading to open commercial conflict even though the Community has declared itself ready to negotiate."

The text of Mr. De Clercq's statement, released in Brussels and Washington, follows:

"I deeply regret this American announcement. It is an unfriendly action, needlessly aggressive, and difficult to understand in the light of current circumstances.

"The United States will derive considerable benefits from the enlargement of the Community, not only in terms of trade, but also from the political standpoint, since enlargement will reinforce the Western Alliance.

"This confrontational approach risks leading to open commercial conflict even though the Community has declared itself ready to negotiate. A GATT (General Agreement on Tariffs and Trade) working group was established on February 12 to examine with the Community's trading partners the consequences of enlargement. In addition, we informed the United States that we were ready to enter into bilateral negotiations immediately. This proposal has not so far received a response.

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"The Community, as on the occasion of previous enlargements, has scrupulously respected its commitments in the framework of the GATT. It rejects the allegation that any of its actions are contrary to GATT rules: the measures agreed upon in the Accession Treaty continue and adapt the import regimes previously in force during a strictly transitional period of four or five years.

"It is now clear that the United States wants to separate these specific agricultural questions from the overall context of the consequences of enlargement, and thereby ignore the much greater benefits it will gain elsewhere. This is not in line with GATT provisions, which provide, as is only common sense, that both credits and debits must be taken into account.

"If the United States were to take the unilateral measures against the Community that it envisages, these would be quite unjustified and contrary to GATT rules. It accords ill with the declared U.S. intention of strengthening the GATT through the launching of a new round of multilateral trade negotiations. The Community could not accept such a flagrant violation of its GATT rights and would be obliged to take appropriate action to defend its interests."

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(The following is an updated version of
European Community News No. 8/1986.)

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.

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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 Spain and Portugal's industrial tariffs, which average 15 percent, will come down to the E.C.'s average level--about 5 percent.

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 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 covered by the enlargement treaty is agriculture. Over a 10-year transition period, tariffs and other trade barriers between Spain and Portugal and the "old" Community will disappear. In parallel, the two new member states will progressively implement 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.
- The temporary maintenance in Portugal of an import-control system for soybeans.

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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 into Spain. 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. Neither the Community nor Spain is self-sufficient in corn and sorghum and will continue to import them.

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

But if the U.S. requests compensation of its "legal rights" in the framework of the provisions of Article XXIV/6, the E.C. is convinced that it will be possible to reach a settlement taking into account the global consequences of enlargement.

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.

In the enlargement framework, the Portuguese state monopoly will be dismantled within four years. The interim regime foresees a 15 percent reservation for E.C. suppliers. Is it thinkable that in the framework of a customs union, these suppliers would be excluded from the Portuguese market?

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 control system, which applies only to oilseeds and oils used for domestic human consumption. It should not affect trade opportunities for U.S. exports.

The best evidence of this is that the level established for 1986 could allow Portugal's imports of soybeans for human consumption to increase by 20 percent over last year.

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Portuguese imports of soybeans used to produce oil for industrial purposes or for export will be admitted without limitations. U.S. exports in this category should be at least as important as those affected by the control system.

Portugal will gradually reduce its tariff on soybeans to the 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.

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 the U.S. to begin without further delay negotiations for a global solution that is fair and satisfactory to all.

