
3 THE COMMUNITY'S EXTERNAL POLICIES

BY SIMON HARRIS

For third countries, the Community's external face is more than merely the application of a common customs treatment to all imports. Although it is not yet possible to speak of a Community foreign policy* as such, the Community has moved to some extent along this road. Certainly the Community's external policy as it has developed, and because of its substantial political content, is very much more than the sum of the Common Commercial Policy and the Association of the Overseas Countries and Territories - the only specific external policies referred to in the Treaty of Rome (Appendix 4). Evidence of this may be seen in the Community's development of a wide-ranging series of institutional relations with third countries with varying degrees of political content, and its acting as a single entity - with the European Commission as spokesman - in international economic negotiations.

The core of the Community's institutional relations with third countries so far has, nevertheless, tended to be in the area of the charges the Community applies to imports and the possibility of negotiating reductions in these charges. The Community has developed what is often referred to as a "hierarchy" in its trade relations, with countries at the top of the hierarchy being the most favoured in terms of trade concessions. Thus the common customs tariff (CCT), which covers all such import charges, is of great importance, not only as the principal component of the Common Commercial Policy but also as a means of distinguishing the Community from the rest of the world and as a bargaining weapon in negotiations with other countries. In the Commission's words "the tariff instrument has been one of the main vehicles through which the Community has been able to express itself in its external relations." (EC, 1977, G).

The consequence is that much of the content of the Common Commercial Policy relates to the common customs tariff and to reductions in it for certain countries, as Community tariffs form the most obvious barriers to access to the Community market. Recent Community 'Trade' Agreements with third countries, however, have tended to include wider provisions than just those dealing with trade issues.

A. Common Customs Tariff

The Common Customs Tariff was originally created as a simple average of the Member States' separate national tariffs as at 1st January 1957. Its general level since then has been gradually lowered in the post-war move towards trade liberalisation through the traditional rounds of tariff-cutting in the GATT, where the Community has been a leading participant. The rates of duty in the CCT are 'most-favoured-nation' (mfn) rates which apply automatically to fellow GATT members, and which the Community mostly applies, on an autonomous basis, to the State Trading countries as well.

* The distinction between a full foreign policy, which would include defence and political relations, and the Community's present external policy is discussed in Henig, S., 1971.

The same approach has applied to quotas. Virtually all industrial products, apart from textiles and a few manufactures, have been completely liberalised and all quantitative restrictions (mainly quotas) removed. But in trade with State Trading countries, many more products are subject to import quotas.

The success of GATT members in cutting their average tariffs has meant generally reduced importance of tariffs as a barrier to trade (Table 3.1). It has also, however, reduced the significance of Community tariff concessions given to various developing countries, as preferential margins on Community markets have been eroded. The Community is currently engaged in the Tokyo Round of tariff negotiations which, if successful, will lead to a further reduction in the average level of the CCT.

Table 3.1

Comparison to Show the Drop in Average Tariffs on Manufactures Up To and Including the Kennedy Round of GATT

Year	(SITC Divisions 5-8)	
	USA	EEC-6
1958	20.2	14.3
1972	11.2	7.6

Source: Denton, G., (Ed.), 1969.

In general, the average level of tariff applied by the Community is lower than in either the USA or Japan (6 per cent against 7.1 per cent for the USA and 9.7 per cent for Japan). But this relatively liberal picture does not apply to that part of the CCT covering agricultural products. For those few agricultural products where ad valorem duties are applied, the duty rates are not only very much higher than the rest of the CCT (they also include the Community's highest individual duty rates), but very few rates are 'bound', by contrast with most of the CCT's industrial tariffs which are bound in GATT. Moreover, for the agricultural products of most importance to Community farmers, where the Community has "fully developed" commodity support regimes, variable import levies are applied on imports rather than ad valorem duties. Table 3.2 shows the operation of the CCT in the agricultural sector.

Table 3.2

The CCT as it Applies to Agricultural Products

Products	Type of Import Charge
1. Cereals, rice, dairy products, sugar, pigmeat poultrymeat, eggs and first-stage processed derivatives of these products.	Variable import levies - to bring world prices up to minimum import prices. In principle calculated as the difference between world prices and Community internal prices.
2. Beef, olive-oil.	Hybrid regime - subject to both ad valorem duties and variable import levies.
3. Wine, fresh fruit and vegetables, fish, preserved fruit and vegetables.	Ad valorem duties, but with regular provision for additional countervailing duties in cases where imports are less than a minimum import price or reference price.
4. Miscellaneous products covered by Annex II of the Treaty of Rome.	Ad valorem duties, but with provision made for the possible use of a safeguard clause.
5. Mutton and lamb, potatoes, cork, ethyl alcohol and vinegar.	Products not yet subject to a common organisation of the market (support regime). Member States may still apply national measures in addition to the CCT's ad valorem duties for these products.
6. Second-stage processed agricultural products, derived from the basic products (in 1 above), and not covered in the Treaty of Rome.	Fixed, rather than variable, import levies, based on monthly or quarterly averages of the import levies applied to the appropriate basic products.
7. Agricultural raw materials, such as wool, rubber and cotton.	Ad valorem duties. These products are not included in Annex II of the Treaty of Rome, and are treated as industrial products.

B. Agricultural Concessions

Despite the importance that has sometimes been placed by the Community on the successful continuance of international trade liberalisation, it has, as indicated in Chapter 2, been unprepared to negotiate any trade concessions which would threaten the integrity of the CAP. This attitude is illustrated by the Community Council of Ministers' negotiating mandate for the Commission at the start of the 'Tokyo Round' of GATT negotiations: "its

/the CAP's 7 principles and mechanisms should not be called into question and therefore do not constitute a matter for negotiation".* Principles and mechanisms of the CAP include the use of variable import levies to prevent imports at world prices undercutting internal support levels, and a refusal to countenance any outside influence on levels of Community agricultural production. Consequently, despite intense pressures, by developed country agricultural exporters in particular, the Community's variable import levies remain unaltered both in concept and degree of support afforded. (For example, they are still calculated as the full difference between world and community prices).

Even for those agricultural products where ad valorem duties are applied to imports (Groups 3, 4, 5, and 7 in Table 3.2) the Community shows an unwillingness to grant further reductions in their levels in the context of GATT, apart from the 'tropical concessions' already implemented. The paucity of the Community's agricultural 'offer' in the Tokyo Round confirms this view. In part this is because any such reductions would have to be applied to all countries on a mfn basis. But of course the principal reason, as already emphasised in the previous chapter, is that reductions would adversely affect the interests of EEC farmers. Also, to some extent, is the fact that producers in countries which have Community Association Agreements, including tariff concessions, have an interest in maintaining their degree of preference in Community markets.

An illustration of these latter difficulties is that it has been very much easier for the Community to agree a list of duty concessions for the developing countries in the context of the Tokyo Round, because only tropical products were covered, than in the Community's Generalised Preference Scheme (GSP) where the potential product coverage is much wider. In particular, the duty reductions on agricultural products under the GSP seem designed to give the maximum impression of generosity (some 305 agricultural products have duty reductions in them) without making any concessions which will harm those with interests in the maintenance of the status quo. Thus Community GSP duty reductions tend either to be (a) for products which are insignificant in international trade (e.g. frogs legs), or (b) where the product is of rather more importance the level of duty reduction is extremely small (e.g. a reduction of two percentage points in the CCT rate of 27 per cent on honey), or (c) there are quotas to limit the extent of the duty concession (canned pineapple, soluble coffee and cocoa butter).

The Community's willingness to grant concessions on the treatment of agricultural imports** is a function of the degree of importance placed on the maintenance of the existing CCT rates and concessions. For agricultural products, where Community production is significant - predominantly, but not solely, those where variable levies are

* The Community's negotiating position is discussed in detail, and compared with that of the USA, in Harris, S., 1977. For more discussion of agricultural issues in the Tokyo Round, see Josling, T.E., 1977.

** The classes of agricultural products on which the Community has granted concessions in its treatment of imports are discussed in Harris, S., 1975, and Ellis, F., et al., 1973. Full details of the EEC's import regimes for the agricultural products covered in this study, together with concessions, if any, are listed in Appendix 3.

used as an import control mechanism - the Community has granted no concessions on a generalised basis apart from those it was forced to introduce and 'bind' in GATT in 1961 as compensation for CCT creation, and in 1974 in compensation for the Community's enlargement. For other products, the Community has a commitment to consult countries with Association Agreements before granting any concessions which would adversely affect their interests. This commitment to consult is taken seriously by the Commission, which appears to go to great lengths to avoid upsetting Associates where they have an existing Community trade concession. Greece even has a formal veto included in its Association Agreement over Community changes in CCT rates for raisins, olives, tobacco and turpentine. The interest of a Community Associate in securing preferential access to the Community market is well illustrated by Henig's (1971) comment on Greece's negotiating tactics for tobacco where, although Greece "wanted extremely liberal treatment for her own product, she wished the Community to be protectionist towards the rest of the world".

C. The
Association
Agreements

Despite the Community's reluctance to grant duty concessions for agricultural products on any general basis, either as CCT reductions under GATT, or autonomous reductions through the GSP, it has been more willing to grant concessions where these are limited to individual countries or small groups of countries. Such concessions are contained in the relevant country Agreements. The degree of protection afforded Community producers, and the ease of granting concessions, varies from product to product depending, mainly, on the importance of the commodity to EEC agriculture. In a similar way there is a hierarchy in the Community's trade relationships - a country's place in the hierarchy dictating the extent of the trade concessions given. The differences in scope of these concessions by country are summarised in Table 3.3, while Appendix 3 compares, by commodity regime under the CAP for the products covered in this study - oilseeds, beef, fruit and vegetables, and cereals, the agricultural trade concessions granted by the Community for the Lomé Convention, the Global Mediterranean Policy and the GSP. Despite the monolithic appearance of "the galaxy of discriminatory trading arrangements" (Cairncross, A., et. al. 1974), which the Community has surrounded itself with, it is obvious that there are substantial differences in the scope of the trade concessions granted. While the removal of tariffs between the Member States of the Community was a legitimate part of its creation, the Community's subsequent creation of preferential trading arrangements is leading to friction with countries which were not included (both developed and developing) and between the various categories of Associated State. Connected with this is the debate over "regionalism" in the Community's relations with LLCs, discussed in Chapter 1.

With the Lomé Convention, the ACP countries have gained a substantial degree of trade liberalisation in agricultural products. In so far as most of the products of interest to the ACPs were tropical in type, there was little difficulty in granting complete exemption from ad valorem duties on agricultural products, as few domestic production interests were involved. Where, however, concessions were wanted for temperate agricultural products - sugar, beef and cereals - adjustments to variable levy import regimes were needed. These were more difficult for the Community to grant, and continue to be a source of dispute for the Member States. There is the Community's general commitment under the Convention to grant, for agricultural products for which import measures other than ad valorem duties apply, "more favourable treatment than the general treatment applicable

to the same products originating in third countries to which the most-favoured-nation clause applies", (Article 2, para. 2(a)(ii)). As with all Community Agreements there is a safeguard clause (Article 10, para. 1) which allows Community action where trade concessions are threatening "a sector of the economy of the Community".

For the Global Mediterranean Policy Agreements, designed to unify and tidy-up the Community's relationships with the countries of the Mediterranean Basin,* the concessions on agricultural products are more limited. This may be in part because the Community does not feel that these countries are quite so far behind in the development process, but also it may be because many of the agricultural products of these countries compete directly with those of Community producers. Thus, although duty concessions are given on a range of Mediterranean-type products - fresh fruit and vegetables, wine, olive oil, processed fruit and vegetables - many of the concessions are limited by the use of devices such as seasonal calendars, reduced duties within specified quota limits and the setting of minimum import prices (mips) which trigger the imposition of countervailing duties if not observed. The use of mips can help exporters in so far as their total revenue is raised because of the higher prices they are compelled to quote, but the size of this benefit depends on the extent to which the demand for their exports in EEC markets is reduced as a consequence of having to sell at a higher price. Further agricultural tariff concessions in these Agreements seem unlikely, as it is the view of France and Italy that too generous concessions have already been granted. The Mediterranean associates themselves are now pressing for more than just tariff and levy concessions, for example, technical and financial aid programmes.

Three of the Mediterranean countries - Spain, Portugal, Greece - have applied to join the Community. It seems likely that this second Enlargement will bring significant changes for the CAP in the support methods it uses for Mediterranean-type products, because to continue the present regimes unaltered would mean a probably unacceptable increase in the Community Budget. The Commission's initial proposals (EC, 1977 J) for amendment to the CAP before Enlargement demonstrate both the risks and the possibilities. On the one hand the Commission's seemingly technical proposals for modifications to the market support regime for fresh fruit and vegetables would have meant a significant increase in the margin of preference given to Community producers.** On the other hand, the introduction of a production aid for Community processors is a welcome innovation as its presence may be used to block permanently the pressures from the industries processing domestically produced fruit, vegetables and fish for more protection through higher import barriers. Past examples of these pressures include Commission proposals for minimum import price regimes for canned sardines and tuna, although so far these proposals have been blocked in the Council. Nevertheless it should be remembered that though an aid to processors is better for third countries than an increase in import protection, as it does not reduce domestic consumption, it nevertheless will ensure that Community food processing is on a larger scale than if no aid was granted.

* Prior to the Global Policy (1977) the Community had extremely varied agreements with individual Mediterranean countries but it "lacked a consistent policy" (Tovias, A., 1977).

** These proposals, however, were not adopted at the Council of Ministers' meeting on 8-12th May, 1978.

Once Enlargement has taken place, decisions in the Community's Council of Ministers will reflect the new balance of interests with more support, probably, being demanded for Mediterranean-type products. A danger is that because of the increase in Community self-sufficiency for many of these products that will arise on Enlargement, "the Community response will be to minimise the adjustment problems for its own farmers by adopting a more protectionist approach to imports". (House of Lords, 1978). The impact of Enlargement is obviously going to have a major effect on the Community's willingness to offer further trade concessions and (maybe) to maintain some existing ones. The Enlargement of the Community is therefore one of the issues included in Part III of this report.

D. The Community
in
International
Negotiations

The Treaty of Rome specifically provides for the Community to act as a single entity in international economic negotiations (Appendix 4). Consequently, as has been indicated earlier, the Community's external relations have a very much wider coverage than just the Common Commercial Policy and the Association Agreements.

As increasingly international relations become an affair of economic issues, rather than the more traditional all-embracing issues of war and peace, the Community is forced to act more frequently as one unit with the Commission mandated to negotiate on its behalf. The strains this creates for the Community in its present state of development, where Member States are still used to acting as single national entities (and for many matters still do), are indicated by its difficulties in agreeing common negotiating positions. With Member States of such different economic traditions and relative wealth, it is not surprising that any negotiating mandate given to the Commission reflects an uneasy compromise; nor is it surprising that the Commission tends to stick to a mandate, once given, rigidly - such are the difficulties involved in changing it.

The effect is that, in international economic negotiations, frequently the Community appears rigid and unwilling to compromise. Often, for example, in negotiations with developing countries, the Council gives such little negotiating flexibility to the Commission in its mandate that the Community appears to be handing down a dictat on a 'take-it or leave-it' basis. This result can be seen with the Community's Generalised Preferences Scheme, although strictly this does not involve international negotiations. Introduced in 1971*, in response to an UNCTAD initiative to help developing countries create manufacturing industries by giving preferential access to all LICs in developed country markets, the Community has always regarded the concessions granted under its GSP as an autonomous political gesture. In theory, the Community could withdraw its concessions, as they are not 'bound' within GATT, although in practice, such action is extremely unlikely. Nevertheless, although the Community does ask LICs for views as to the concessions granted, it takes its own decisions and then announces any changes unilaterally and applies them without there being any further opportunity for LIC views to be taken into account.

In more truly international negotiations, the Community's unwieldiness is emphasised. Yet perhaps the important point is that the Community has managed to work as a single

* The interplay of the various pressure groups involved in the creation and operation of the Community's GSP is analysed in Tulloch, P., 1975.

entity at all in the various international economic negotiations, even if this involves Community representatives in a tedious co-ordination "à neuf" after each day's formal conference session. Although normally the Member States do not speak individually, the Commission being the Community's spokesman, they jealously scrutinise the Commission's performance to ensure it has not departed from the agreed negotiating mandate. To get a change in mandate involves a decision from the Council of Ministers in Brussels which may occur quickly, slowly, or never, depending on the complexities of the Community's internal politics. Negotiations where the Community has been involved as a single entity include the 'North/South' dialogue in the Paris-based Conference for International Economic Co-operation (CIEC); the negotiations for a New International Economic Order under UNCTAD, together with the associated individual commodity agreement discussions; the Multilateral Trade Negotiations under GATT; the World Food Conference associated with FAO - to name some of the more important sets of economic negotiations held in the 1970s.* As always the perpetual conflict between the Community's interest in liberalising international trade and/or stabilising world commodity markets has conflicted with its desire to maintain the inviolability of the CAP.

On the one hand the Community is dependent on third countries for export markets (and as the world's largest single trading entity this is an important consideration) and for many raw material supplies. On the other hand, third countries are interested in gaining access to Community markets for their exports, particularly for their agricultural ones, given the relatively favourable treatment the Community grants already on imports of manufactures. The dilemma has been discussed earlier. Additionally, however, the Community has an interest in stabilising world commodity markets as a means of ensuring its raw material supplies, moderating inflationary pressures and reducing the budget costs involved in operating the CAP. Consequently the Community as a general principle supports the negotiation of international commodity agreements, even though its Commitment to the Common Fund as part of UNCTAD's Integrated Programme for Commodities (IPC) has been grudging and slow in coming. It is perhaps unfortunate (for the Community) that the first international commodity agreement to be negotiated as part of the IPC was that for sugar in 1977. Again the Community has been hampered by the CAP, so that despite its support of the IPC and of many of its aims, it has been unable to join the 1978 International Sugar Agreement because it has been unwilling to restrain its domestic beet sugar production.

E. Assessment

An overall interpretation of the Community's external relations in the first 20 years of its existence would be that the Community has matured in international terms so that it is accepted as a single entity fully able to negotiate international economic issues. Nevertheless, conflicts exist between its external economic policies (generally relatively liberal) and some of its internal policies (particularly the CAP). These conflicts mean that the Community cannot be consistent in its external relations and lay it open to charges of protectionism.

* For a summary of the various sets of international negotiations see Morton, K. and Tulloch, P., 1977

Table 3.3

The Community's Institutional Arrangements for Trade with Third Countries Ranked According to the Scope of their Agricultural Provisions

Agreement	Agricultural Concessions Contained
<p>1. <u>The Lomé Convention (1975)</u></p> <p>Provides for complete exemption from CCT duties on industrial products (Ch. 25-99); for industrial, technical and financial co-operation; for aid.</p> <p>The same trade concessions also apply to the remaining countries and territories for which Community Member States are responsible.</p>	<ul style="list-style-type: none"> - Complete exemption on CCT duties for agricultural products (Ch. 1-24) where such duties are the only import charge. - For products where the CCT import arrangements provide for measures other than customs duties (i.e. variable levies or other variable import taxes) more favourable import treatment to be applied than to the same products originating in non-ACP countries. Normally means a reduction in levies (for beef, cereals and rice). - STABEX arrangements for stabilising ACP export earnings. - Commitment to purchase at guaranteed prices 1.3 million tonnes of sugar.
<p>2. <u>The "Global" Mediterranean Policy Agreements</u></p> <p>These are Association and Co-operation Agreements designed to treat the Mediterranean countries consistently. Countries covered are Israel (1975 and 1977), Morocco, Tunisia and Algeria (1976), Egypt, Jordan, Lebanon, Syria (1977). Provides for complete exemption from CCT duties on industrial products (Ch. 25-99); for commercial, industrial, technical and financial co-operation. Social co-operation also included for Maghreb. The Association Agreement with Malta (1971) has yet to be amended, while that for Cyprus (1973) was amended in 1978.</p>	<ul style="list-style-type: none"> - Reductions in CCT duties on some agricultural products - particularly processed (Ch. 15-24); also for fresh fruit and vegetables (on seasonal calendars) wines (within quotas and subject to mips) and fish. - Reductions on levies on olive oil.

Table 3.3 (contd.)

Agreement	Agricultural Concessions Contained
<p>3. <u>The Greek and Turkish Association Agreements</u></p> <p>The Association Agreements with Greece (1962) and Turkey (1964) envisage eventual full membership of the Community. They provide for the creation of customs unions over a transition period; exemption from CCT duties on industrial products.</p>	<p>- Progressive harmonisation of Greek and Community agricultural policies to accompany customs union. In the meantime exemption from most CCT duties on agricultural products (Ch. 1-24). For Turkey duty reductions on many agricultural items and levy reductions on olive oil and some cereals.</p>
<p>4. <u>The Spanish and Portuguese Preferential Trade</u></p> <p>The Preferential Trade Agreements with Spain (1970) and Portugal (1973) both provide for the creation of a free trade area with the Community. That for Portugal amended (in 1976) to allow for industrial, technical and social co-operation in line with the Global Mediterranean Policy. The Spanish Agreement's equivalent amendment overtaken by the Spanish application to join the Community. CCT industrial duties being phased-out.</p>	<p>- Reductions in CCT duties on some agricultural products (mainly fruit and vegetables), levy reduction on olive oil, duty reduction on wine subject to observance of mips.</p>
<p>5. <u>The European Free Trade Agreements</u></p> <p>These preferential trade agreements were designed to prevent the re-erection of trade barriers in Europe when the UK, Ireland and Denmark joined the EEC and left EFTA. Agreements with Austria (1972), Finland (1973), Iceland (1972), Norway (1973), Portugal (1972), Sweden (1972), Switzerland (1972).</p>	<p>- Provide exemptions from the fixed component of import charges on some processed agricultural products (Ch. 15-24). A reduced-levy quota for breeding cattle of mountain breeds.</p>

Table 3.3 (Contd.)

Agreement	Agricultural Concessions Contained
<p>6. <u>The Generalised System of Preferences (GSP)</u></p> <p>Applies to 114 developing countries and 27 dependent or administered territories. Provides duty exemptions on all finished and semi-finished industrial products subject to quotas on sensitive products.</p>	<p>- 305 Agricultural products have duty reductions. They are mostly relatively unimportant in international trade. Quotas for the concessions on soluble coffee, cocoa butter, canned pineapple.</p>
<p>7. <u>The Trade Agreements with American Countries</u></p> <p>These are non-preferential trade agreements with Argentina (1971), Brazil (1974), Uruguay (1974). Mexico (1975) - a non-preferential agreement on economic and commercial co-operation. Canada (1976) - a non-preferential framework agreement for economic and commercial co-operation.</p>	<p>- Provide a CCT levy reduction on frozen beef imports intended for processing.</p>
<p>8. <u>The Trade Agreements with Asian Countries</u></p> <p>Non-preferential trade co-operation agreements with Bangladesh (1976), India (1974), Pakistan (1976), Sri Lanka (1975). An economic and commercial co-operation agreement is being negotiated with Iran. A non-preferential Trade Agreement has just been negotiated with China.</p>	<p>- No agricultural duty concessions as Community action to compensate these countries (and Hong Kong, Singapore and Malaysia) for the loss of their Commonwealth preferences in the UK was through an extension in the number of products covered in the GSP.</p>

Note: (1) The limited trade agreements, dealing with single commodities, with Rumania, Colombia, South Korea, Hong Kong, Indonesia, Japan, Laos, Macao, Malaysia, Philippines, Singapore and Thailand are excluded.

(2) The reduced levy concessions on imports of butter and cheese from New Zealand are not listed in the table as they do not form part of any Trade Agreement, but are autonomous concessions by the Community to satisfy UK demands on entry into the Community.