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**WTO RULES CRUCIAL FOR MINIMIZING FRICTIONS AND ENSURING  
OUTWARD-LOOKING FOCUS FOR FURTHER GROWTH OF  
THE EUROPEAN UNION AND ITS TRADING PARTNERS**

**TRADE POLICY REVIEW OF THE EUROPEAN UNION**

The European Union is among the pace-setters in the multilateral trading system, and recent accessions and new preferential arrangements have further increased its influence on the system. The trade policies pursued by the EU in the past two years show increasing internal policy integration, a rapidly expanding and increasingly complex network of free-trade area and preferential relations and active participation in multilateral trade liberalization. A strong, constantly active WTO framework is necessary to guide the Union's future trade policies and counterbalance the discriminatory impact of expanding preferential links.

The first report by the WTO Secretariat on all aspects of the EU's trade policies - including services for the first time - covers the period since 1993. In this time, the Single Market was accomplished, the Maastricht Treaty entered into force and the Union was enlarged to fifteen members. According to the report, the European Economic Area agreement, Europe Agreements with central and eastern European countries, a Customs Union Agreement with Turkey in 1995 and ongoing negotiations on Euro-Mediterranean Agreements have increased the network of preferential links and provide fora in which trade problems with preferential partners can be addressed outside the multilateral system. The major revision of the GSP scheme from January 1995 links preferences for industrial products to the EU's assessment of the "sensitivity" of the products concerned and the exporting country's level of development and degree of specialization.



The report states that a core element of the Internal Market process was the elimination of trade restrictions maintained by individual member States. In substitution, unified quotas were introduced for bananas, canned sardines and tuna, certain steel supplies from the republics of the Commonwealth of Independent States (CIS), and a number of consumer products from China. New standards legislation reflects the growing importance of environmental objectives and constraints on production and trade. Some progress has been made in harmonizing export-related policies and a draft directive on common rules for export credit insurance is in preparation.

Single Market integration in pharmaceuticals has been delayed by diverging standards, national price regulations and reimbursement systems. The report states that new disciplines on supports to the coal sector are being phased in and that a restructuring plan for the steel industry, approved in early 1993, was abandoned in October 1994.

Trade in services has expanded rapidly; however, services are still less important in trade than in overall GDP of the Union. Integration in services, which has generally trailed behind that for goods, has progressively established a common framework of requirements for internal trade and establishment. Robust growth has occurred in sectors subject to recent liberalisation and deregulation initiatives. Market access may improve as a result of the ongoing GATS negotiations on financial services, maritime transport and basic telecommunications. However, the report says the EC has made no access commitments under the GATS on audiovisual services. Although current EU rules in areas such as banking, insurance and air transport contain reciprocity provisions, these have not been invoked.

The European Union's Uruguay Round commitments include widespread tariff reductions for manufactures. However, tariffs in some "sensitive" sectors will not change notably, and significant escalation will remain in textiles and clothing. The EU has begun phasing out the quantitative restrictions under the MFA (Multi-fibre Arrangement); products reserved for later stages tend to be those of particular interest to producers in southern member States and Mediterranean countries with preferential access. Under the Europe Agreements, textile and clothing imports from six central European countries are to be fully liberalized by 1 January 1998.

Market access commitments in agriculture involve the tariffication of variable levies and other import barriers. High tariff peaks remain on meat, dairy products, cereals and tobacco. The report states that tighter disciplines on export subsidies and subsidized exports may gradually reduce the adverse effects on world markets of EU surplus disposal. However, third country suppliers depend on tariff quota obligations to enter EU markets in sensitive areas such as sugar.

The EU remains one of the most frequent users of anti-dumping remedies in the GATT system. New anti-dumping, countervailing and safeguard regulations incorporate the relevant WTO provisions with some EU-specific extensions. The new Trade Barriers Regulation specifies internal procedures for actions against illicit trade practices abroad, including certain areas of services and intellectual property; all such actions must be authorized under international dispute settlement provisions. According to the report, no general emergency trade legislation is foreseen in services sectors.

The report notes that a prominent feature of past Community trade policies, bilateral export restraints towards the EU markets, have disappeared in recent years. The bilateral "consensus" for monitoring Japanese car exports is to expire at the end of 1999 as provided for under WTO provisions.

The new WTO Agreements define the multilateral framework both for the development of the EU's external policies and for the process of further European integration and co-operation. In

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this connection, the m.f.n.-based commitments made by the EU in the Uruguay Round will mitigate the effects on third parties of the spread of its regional and preferential relationships. The report concludes that a comprehensive, credible set of multilateral rules and disciplines under the WTO, if respected by all Members, will be crucial in minimizing frictions and ensuring an outward-looking focus that both the Union and its partners need to grow and prosper.

#### **Notes to Editors**

1. The WTO Secretariat's report, together with a report prepared by the European Communities will be discussed by the WTO Trade Policy Review Body (TPRB) on 24 and 25 July 1995.
2. The WTO Trade Policy Review Body conducts a collective evaluation of the full range of trade policies and practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.
3. The two reports, together with a record of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete trade policy review of the European Union and will be available from the WTO Secretariat, Centre William, Rappard, 154 rue de Lausanne, 1211 Geneva 21.
4. The reports cover developments of all aspects of the European Union's trade policies, including domestic laws and regulations, the institutional framework, trade-related developments in the monetary and financial sphere, trade practices by measure and trade policies by sector. Attached are the summary observations from the Secretariat and government report. Full reports will be available for journalists from the WTO Secretariat on request.
5. Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990), Costa Rica (1995), Côte d'Ivoire (1995), Egypt (1992), the European Communities (1991 & 1993), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 and 1995), Kenya (1993), Korea, Rep. of (1992), Macau (1994), Malaysia (1993), Mexico (1993), Morocco (1989), New Zealand (1990), Nigeria (1991), Norway (1991), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992), South Africa (1993), Sweden (1990 & 1994), Switzerland (1991), Thailand (1991), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uruguay (1992) and Zimbabwe (1994).

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## **TRADE POLICY REVIEW BODY**

### **THE EUROPEAN UNION**

#### **Report by the Secretariat - Summary Observations**

The European Union is among the pace-setters in the multilateral system owing to its economic weight and reliance on external trade. Recent accessions and new preferential arrangements have further increased its influence on the system. The trade policies pursued by the EU in the past two years illustrate three main tendencies: internal policy integration and harmonization across sectors and, more strongly, among member States; a rapidly expanding and increasingly complex network of free-trade area and preferential relations; and active participation in multilateral trade liberalization. The co-existence of, and interaction among, these tendencies highlights the necessity for a strong, constantly active WTO framework to guide future trade policies and counterbalance the discriminatory impact of expanding preferential links.

#### The Economic Environment

In 1994, the economy of the European Union grew by over 2.5 per cent. While most member States were recovering from the 1993 recession, Denmark, the Netherlands, Ireland and the United Kingdom showed sustained growth. The recovery has not yet led to a significant fall in recorded unemployment, which stood at an average level of some 11 per cent in 1994, with wide differences among member States.

Underlying the growth were increasing exports and investment, stimulated by buoyant world markets, lower interest rates, and greater profitability and business confidence. Aided by wage moderation, strong productivity growth and depreciation of some member States' currencies, the value of merchandise exports in January-August 1994 grew by 12 per cent over the same period of 1993. Preliminary data point to an improving merchandise trade balance after a small deficit in the first eight months of 1994.

Trade in services has expanded rapidly, benefiting from a general pattern of sectoral change, deregulation, internal market integration and technical progress. The EU's services balance has been in surplus for many years, reflecting a strong competitive position in major sectors. Despite robust growth, services currently represent about one quarter of the Union's total trade, contrasting with a share of close to two thirds in its GDP.

Transition to Economic and Monetary Union remains a policy priority. In this context, price inflation has declined in most member States and, although still fragile, budgetary positions have improved after a marked deterioration in 1993. These factors, combined, until recently, with relative tranquillity in foreign exchange markets, have contributed to lower, converging interest rates.

#### Developments in the Institutional Framework

The entry into force of the Treaty on European Union - the Maastricht Treaty - on 1 November 1993 added a new dimension to existing Community policies. Key objectives of the Treaty are the phasing-in of economic and monetary union, the establishment of a common foreign and security policy, the development of common citizenship, and close co-operation on justice and home affairs. The rôle of the European Parliament in the Union's decision-making process was enhanced. The

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European Monetary Institute started work in 1994, preparing the ground for the European System of Central Banks and, in time, a European Central Bank. The Maastricht Treaty did not affect the substance of traditional Community policies in areas such as agriculture, transport, commerce and competition.

The accession of Austria, Finland and Sweden on 1 January 1995 added some 7 per cent to the Union's GDP and 6 per cent to its population. It resulted in no significant institutional changes, although Parliament, Council, Commission and Court of Justice were enlarged and certain decision-making procedures, including those for qualified majority voting in the Council, modified. While several countries have lodged applications for EU membership, no further enlargement negotiations are envisaged before the 1996 Intergovernmental Conference provided for in the Maastricht Treaty.

Asked to clarify the allocation of competence within the Union to conclude the Uruguay Round agreements, the European Court of Justice confirmed in November 1994 the Community's exclusive competence with respect to multilateral agreements relating to goods. However, competence to conclude agreements related to certain types of services and intellectual property was shared between the Community and the member States. Consequently, the WTO Agreements were signed by the Council, Commission and the member States and ratified by the Council, with the European Parliament's approval, as well as by national parliaments.

#### Trade Policy Features and Trends

The general achievement of the Single Market, from 1 January 1993, consolidated an important stage of integration, substituting common for national policies in many areas. The coincidence of internal reform with external negotiations enhanced the Community's participation in the Uruguay Round. New negotiating interests in modern sectors were coupled with a growing realization that structural changes in traditional industries were inevitable. Harmonization has continued in sectors such as coal, pharmaceuticals, financial services, telecommunications and aviation as well as in export-related policy areas; and new standardization initiatives have been launched with a strong environmental background. Negotiations are underway in the WTO to achieve international acceptance of changes in the common import régime resulting from the accession of the new member States.

#### Type and incidence of trade policy instruments

The European Union's Uruguay Round commitments include widespread tariff reductions for manufactures, bringing the average rate down by 38 per cent to 3.7 per cent in 2000 and eliminating tariffs on products such as pharmaceuticals, most steel items, paper, furniture, some toys, soaps and detergents. However, tariffs in some "sensitive" sectors, including clothing and passenger cars, will not change notably, and significant escalation will remain in textiles and clothing.

Market access commitments under the WTO Agreement on Agriculture involve the conversion of variable levies and other import barriers into tariff equivalents, and the reduction of all tariffs by 36 per cent on average by 1 July 2001. For virtually all tariffed items, the EU has introduced specific duties, whose levels reflect the differences between external and internal prices in the base period of 1986-88 and, thus, the restrictiveness of the previous régime. Although ad valorem equivalents are not available in all cases, estimates indicate peaks on meat, dairy products, cereals and tobacco.

Under the Agreement on Textiles and Clothing, the EU has begun phasing out the quantitative restrictions under its twenty bilateral MFA Agreements. While all such restrictions must be eliminated by 1 January 2005, participants have scope to determine the product mix in each stage of integration.

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The products reserved for later stages tend to be of particular interest to producers in southern member States, especially Portugal, and Mediterranean countries with preferential access. Under the Europe Agreements, textile and clothing imports from six central European countries are to be fully liberalized by 1 January 1998.

A core element of the Internal Market process was the elimination of trade restrictions maintained by individual member States. In substitution, unified quotas were introduced for bananas, canned sardines and tuna, certain steel supplies from the republics of the Commonwealth of Independent States (CIS), and a number of consumer products from China. Certain textile items from the CIS republics are subject either to bilateral quotas or double checking surveillance, while supplies from other non-WTO members, including Chinese Taipei, are governed by autonomous restrictions.

Reciprocity provisions in a directive harmonizing procurement conditions in the "excluded sectors" of water, energy, transport and telecommunications generated frictions with the United States, which in 1993 imposed sanctions in its own Federal procurement on EU suppliers in a number of sectors. In April 1994, the parties reached an agreement extending national treatment in specified areas (excluding telecommunications) on the basis of sectoral reciprocity. The agreement, ratified in late-May, is intended to be incorporated, to a large extent, into the WTO Agreement on Government Procurement.

New standards legislation reflects the growing importance of environmental objectives and constraints on production and trade. Core elements of a 1994 directive on packaging and packaging waste, covering production, content, re-use and recycling of packaging, will be implemented through new technical regulations. Criteria have been established for the award of "eco-labels" under a voluntary scheme which covers five consumer products to date.

Some progress has been made in recent years in harmonizing export-related policies. From 1 July 1995, exports of dual-use (military and civilian) goods are covered by a comprehensive régime of standards and controls, based on provisions of the Maastricht and EC Treaties. A draft directive on common rules for export credit insurance is in preparation.

Prior to the Internal Market programme, integration in services had generally trailed behind developments in the area of goods. However, it may have benefited from experience gained in dismantling barriers to trade in goods through common regulation and mutual recognition. Legislation in core services areas has progressively established a common framework of minimum requirements for internal trade and establishment; in some cases, member States have led the process of liberalization, while in others Commission initiatives have set the pace. The possibilities for external suppliers to benefit from internal liberalization vary among sectors, and market access may improve as a result of the ongoing GATS negotiations on financial services, maritime transport and basic telecommunications.

Current EU rules in areas such as banking, insurance and air transport contain reciprocity provisions which can be used in the absence of bilateral access commitments or multilateral obligations, although they have not been invoked. Subject to specific horizontal and sector-specific limitations, the Community has offered under the GATS to bind national treatment for establishment and conditions of operation for all financial services. In air and maritime transport, benefits such as cabotage rights are reserved for companies wholly or majority owned by member States or their nationals. At this stage, internal liberalization of air transport co-exists with a segmented external régime based on member States' bilateral aviation agreements with third parties; the Commission is attempting to introduce a unified framework.

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### Temporary measures

The EU's system of "commercial defence" was reorganized in December 1994. New regulations for anti-dumping, countervailing and safeguard measures incorporate the relevant WTO provisions, with some additions or modifications. While safeguard actions remain subject to member States' qualified majority approval in the Council, the threshold for definitive anti-dumping and countervailing duties was reduced to a simple majority vote, easing access to these instruments. The new Trade Barriers Regulation (TBR), which replaces the 1984 New Commercial Policy Instrument (NCPI), specifies internal procedures for actions against objectionable or illicit trade practices abroad, including certain areas of services and intellectual property. The actions must be authorized under international dispute settlement provisions. Only a few investigations had been carried out under the NCPI since its inception in 1984; two cases remain active, now under the TBR.

The European Union remains one of the most frequent users of anti-dumping remedies in the GATT system, maintaining 156 measures at the end of 1994. This contrasts with two countervailing actions and three safeguard measures under Article XIX, including restrictions by Germany on coal imports since 1958. Under WTO provisions, the safeguard actions are to be terminated by 1 January 1999. Pursuant to an agreement on competitive conditions in the shipbuilding industry, concluded in the OECD framework, the EU is to introduce a specific trade remedy mechanism for ship transactions with effect from 1 January 1996.

The WTO Agreement on Safeguards prohibits "grey area measures" and requires all existing measures to be abolished by 1 January 1999. The one exception for the EU will be the bilateral "consensus" for monitoring Japanese car exports, which is due to expire at the end of 1999. Available evidence suggests that most other bilateral export restraints by Japan and other Asian suppliers have already disappeared.

No general emergency trade legislation exists, or is foreseen, in services sectors. Community procedures, used once to date, may be invoked in the event of "unfair pricing practices" in international cargo liner shipping.

### Sectoral policy developments

The 1992 reform package represented the single most important change to the Common Agricultural Policy since its inception. Internal producer prices have since been reduced significantly in some sectors, while farmers' incomes have been maintained through direct payments. Because of the 1992 CAP reform, the Community does not at present envisage major new adjustments as a consequence of the WTO Agreement on Agriculture.

The EU remains a major supplier in world markets for temperate-zone farm products such as meat, dairy products and cereals. In these areas, tighter disciplines on export subsidies and subsidized export volumes under the WTO Agreement may gradually narrow the extent of surplus disposal and the adverse effects on world markets. However, given the generally high level of continued import protection, third country suppliers are likely to depend on tariff quota obligations to enter EU markets in sensitive areas. A recent revision of the EU sugar régime maintains the existing multi-layered system of internal delivery quotas behind high trade barriers; tariff quota obligations will benefit only traditional preferential suppliers, predominantly ACP countries.

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The Community's agri-monetary system was reformed under Internal Market requirements from 1993. The system, used for many years to support producer incomes in "hard-currency" member States, was stripped of its protective elements and reduced to mainly technical functions. However, the new rules are currently being tested in a turbulent monetary environment.

In most manufacturing areas, the Single Market programme was completed on schedule by 1 January 1993. However, integration in pharmaceuticals has been delayed by diverging standards, national price regulations and reimbursement systems. The introduction of common approval procedures from 1995 onwards may overcome standards-related problems. In the coal sector, different policy approaches remain among the main producing member States, Germany (which contributes some 40 per cent of EU output, but accounts for close to 90 per cent of subsidies granted), the United Kingdom and Spain. New Community rules introduced in January 1994, scheduled to apply until the expiry of the ECSC Treaty in 2002, provide for increased transparency and stricter disciplines on national support.

Traditional manufacturing industries - textiles and clothing, motor vehicles, shipbuilding, steel and other base metals - remain particularly vulnerable to external competition and changes in demand patterns. To prevent the extension of uncoordinated national support from exacerbating economic distortions and threatening the Single Market, common guidelines clarify or tighten the general rules for State aid in these industries. The market share of domestically produced automobiles has recently increased, aided in part by the appreciation of the yen.

A restructuring plan for the steel industry, approved in early 1993, was based not only on State aid for conversion and closures but additional border measures, mainly affecting central and eastern European supplier. The plan was abandoned, however, in October 1994 due to insufficient industry proposals for capacity reductions.

Adjustments in traditional manufacturing industries have been accompanied by robust growth in many services sectors, including finance, insurance, communications and transport, in which internal liberalisation and deregulation have occurred. With internal barriers coming down, individual service operators have become more vulnerable to policy distortions created elsewhere in the Union. Not surprisingly, recent national aid packages for airlines and banks have proved controversial. Given the risks for the integration process, efforts are underway to intensify Community monitoring, increase transparency and reduce member States' discretion to support national champions.

Significant headway has been made in liberalizing telecommunications equipment and services markets. All value-added services, data services and terminal equipment categories, throughout the EU are now open to external competition while some member States have gone further. Uncertainties remain, however, due to national carriers' scope for internal cross subsidization, their possible abuse of market power, and the lack of stringent accounting requirements at EU level. With liberalization approaching the most sensitive stages - opening public voice transmission and the basic network - new regulations are in preparation.

Contrasting with its generally active rôle in other services areas, the EC has made no access commitments under the GATS on audiovisual services. It has scheduled "cultural" exceptions from m.f.n. treatment to cover preferential arrangements for European works, including European-content requirements under the "Television without Frontiers" Directive. The requirements are not currently binding on member States.

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### Trade Policies and Foreign Trading Partners

The continuing process of integration among member States, the European Union's complex system of free-trade and preferential relations and its rôle in concluding the Uruguay Round have all had a significant impact on the multilateral system. A gradual shift in internal policies from developing new legislation towards enforcing existing law may have contributed to maintaining the "acquis communautaire" through the recession and thus facilitating recent accessions.

The European Economic Area agreement, building on previous free-trade agreements, enables participants (Norway, Iceland and Liechtenstein), to share fully in the common framework for trade in goods and services. Countries in central Europe are approaching closer integration through staged reciprocal liberalization under Europe Agreements. A new impetus has been directed to Mediterranean policy with the conclusion of a Customs Union Agreement with Turkey in 1995 and ongoing negotiations on Euro-Mediterranean Agreements with several other countries. All such agreements, however, provide fora in which trade problems with preferential partners can be addressed outside the multilateral system.

The major revision of the GSP scheme from January 1995 links preferences for industrial products to the EU's assessment of the "sensitivity" of the products concerned and the exporting country's level of development and degree of specialization. While intended to promote wider use by beneficiaries and improve transparency and stability of access, the new system appears more obviously tilted against large and dynamic suppliers.

The new WTO Agreements define the multilateral framework both for the development of the EU's external policies and for the process of further European integration and co-operation. In this connection, the m.f.n.-based commitments made by the EU in the Uruguay Round will mitigate the effects on third parties of the spread of its regional and preferential relationships. A comprehensive, credible set of multilateral rules and disciplines under the WTO, if respected by all Members, will be crucial in minimizing frictions and ensuring an outward-looking focus that both the Union and its partners need to grow and prosper.

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## **TRADE POLICY REVIEW BODY**

### **THE EUROPEAN UNION**

#### **Report by the European Communities - Summary Extracts**

This is the third Trade Policy Review report presented by the EEC Commission on behalf of the European Community, and for the first time, it includes Services and TRIPS, parts of the Uruguay Round Agreements which are of shared competence<sup>1</sup> between the Community and its Member States. In the two years elapsed since the second report (April 1993), chronological developments in the field of the European Community's external relations and trade have been numerous, and for some of them historical:

Firstly, the beginning of 1993 saw the end of the transition period towards a full Single Market, and a new era with total free movement of goods, services, capital and people and better access to public contracts started on 1 January. The consolidation of the Single Market has since been essential for economic recovery in Europe, and remained central to the Community's efforts to maintain industrial competitiveness, creating jobs and to stimulate economic growth;

Secondly, the entry into force of the Treaty of the European Union (the "Maastricht Treaty") on 1 November 1993 marked the beginning of a new stage where the Union is carrying further its development with fundamental new commitments in the field of economic and monetary integration (which will have major trade implications in the longer term), an economic foreign and security policy, and close cooperation on justice and home affairs. Building on the EC's existing legal and institutional framework, however, the Maastricht treaty did not alter the substance of the Treaty of Rome in areas such as agriculture, transport, commercial<sup>2</sup> and competition policy;

Thirdly, the Agreement on the European Economic Area (EEA) between the EC and five EFTA Countries (Austria, Finland, Ireland, Norway and Sweden) came into force on 1 January 1994;

Throughout the period, the European Union continued its efforts with countries of Central and Eastern Europe to progressively pave the way for a new European Architecture, by pressing ahead with a network of Europe agreements representing a degree of economic and political integration which goes well beyond the notion of free trade agreement:

Association Agreements were initially signed in 1991 with Poland, Hungary and Czechoslovakia with the aim of establishing progressively full freedom of movement of goods, services, and capital

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<sup>1</sup>According to the recent European Court of Justice's ruling (opinion 1/94, 15 November 1994). This is in contrast with trade agreements relating to goods, which fall under the Community's exclusive competence.

Consequently, the sections of this report related to Services & Trips are presented on behalf of the European Communities and its Member States. A presentation of current evolution of the institutional framework is to be found in the WTO Secretariat report (Box II.1).

<sup>2</sup>This is why, it is appropriate in this report to refer to either the "European Community", or to the "European Union", depending on the context.

in due course. Similar agreements were later concluded in 1993 with Bulgaria, Romania, as well as the necessary amendments as regards the new Czech and Slovak republics. Pending ratification by the involved Parliaments, Interim Agreements applied (with respective dates of entry into force varying between 1992 and 1993) which contained the trade and trade-related aspects of these Europe Agreements. Finally, the Europe Agreement of Hungary and Poland entered into force on 1 February 1994, and those for Bulgaria, the Czech Republic, Romania and Slovakia on 1 February 1995;

At its Essen Council in December 1994, the European Council decided to boost the process of preparing the six associated countries for EU membership, and a "pre-accession" strategy is now in place for bringing them gradually into the EU internal market and establishing structured political relations.

On the Baltic side, Free Trade Agreements were signed in July 1994 with Estonia, Latvia and Lithuania, which have been recently renegotiated into full-ledged Europe Agreements; these three Baltic countries will therefore be included in the pre-accession strategy mentioned above.

As of 1 January 1995, the implementation in Community legislation of the results of the Uruguay Round has been the most across-the-board source of change for the Community at the level of individual trade policy measures;

The Community's implementation of the Uruguay Round results coincided with policy adjustments to accommodate the accession of three new Member States, Austria, Finland and Sweden on 1 January 1995. Representing a new step in the history of European integration, the EU enlargement is a process which will bring an overall net reduction in the tariff protection of the acceding Members. Article XXIV negotiations are underway and certain exporting countries have put forward claims in cases where the enlargement results in an increase in duty perception;

Finally, in parallel to its new steps towards eventual integration of the six associated Central and European countries, the European Union has also developed a new generation of Partnership and Cooperation Agreement (PCA) with the Independent States of the former Soviet Union, and on the Southern Front it is developing a Euro Mediterranean Partnership.

These developments, as well as the economic and trade context in which they have taken place, are examined in the first part of the report, section I. While 1993 started for the Community under the cloud of a severe economic recession, signs of economic recovery, bolstered by substantial growth in exports and investment, and an upturn in private consumption, have been, as of 1994, greater than expected.

Trade data relevant to the period demonstrate that the EC has remained one of the most open of all major economies: on the basis of the percentage of GDP contributed by trade in goods and services, the EC (with a fairly consistent 22 to 25% of its GDP derived from such trade through the last 15 years) is more open than the USA (whose figure rose to just above 20% in 1980, and is still at 21-22% a decade later) or, above all, Japan (whose figure has sharply declined since the early eighties to a low of 16%). (See graph 1 in annex.)

The growing merchandise trade deficit experienced by the EC since 1987 levelled out in 1991. Since then the Community's trade balance has improved considerably, to the extent of being in balance (or even slightly positive) in 1994 (see graph 4). The geographic breakdown of bilateral trade balances, however, has remained approximately the same as two years ago.

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Among the top ten exporters to the EC market, there are those that have benefited from regional economic integration (five individual EFTA countries), but also major trade partners such as the USA, Japan, and China. A precisely similar pattern exists as regards the major EC export markets. (See graphs 6 and 7.)

Section II of the report presents a detailed picture of the evolution of the Community's trade policy as regards trade in goods:

Firstly, the main consequences of the Uruguay Round for the Common Commercial policy, both on the tariff front ( where increased market access will result from an average reduction of around 37% , with a final average rate for industrial products at a mere 3.6% and the bulk of duty rates between 3 and 10% ), and regarding revised rules in the use of trade defence instruments (especially anti-dumping, countervailing, and safeguards), where a direct transposition has been carried out given the coincidence of the Community's previous practice with the rules of the New Codes.

Then, the elements of the Single market programme that have the greatest impact on trade: the unilateral removal of most national residual restrictions (including a large number of restrictions vis a vis China) linked with the introduction of a new common import regime; the coordination of procedures for the award of public works contracts and the extension of the benefits of EC public procurement legislation to suppliers of countries signatories of the GATT Government Procurement Agreement; finally, the recent steps taken in the field of harmonisation of standards, the Community's "Global approach" to testing and certification, and its willingness to negotiate Mutual Recognition Agreements with third-countries.

Section II presents also a picture of the trade developments in important Community sectors. Agriculture (with decisions on reform of the CAP, and the phasing-in of U.R. disciplines), Textiles and Clothing (with its orderly expansion of trade enabling continued structural adjustment), Motor Vehicles, Iron and Steel (with efforts towards restructuring) are covered in details.

This review confirms that doing business in the Community market has become easier and more global. With the disappearance of physical internal borders, Mutual Recognition mechanisms, and greater harmonisation, merchandise do indeed circulate freely. With the implementation of the Uruguay Round in the above sectors, the Community has demonstrated that a global multilateral agreement yields global benefits for all traders, be them from the EC or from third countries.

Sections III and IV deal with "new areas" such as services and trade-related aspects of intellectual property rights (TRIPS). Trade in services, like the trade in goods, has been substantially facilitated by the completion of the Internal market, be it on a cross-border basis or through commercial presence, thanks to single licensing, the principle of home-country authority, and that of mutual recognition/harmonisation of supervisory rules. Here again, the Community pursues a liberal policy in its relation to third countries' services companies: the simple fact that a foreign service supplier, once established under the laws of one of the EC Member States, then receives the same treatment as domestic EC service supplier, offers an EC-wide trading opportunity. This section also reviews the modifications of relevant Community legislation pursuant to the WTO Agreement.

Finally, section V highlights the views of the Community in two areas where, inter alia, it is believed, progress is needed in the newly established World Trade Organisation: Trade and Environment (where work is already underway), and Trade & Investment.

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