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Article — Digitized Version

The foreign trade policy of the EEC

Intereconomics

Suggested Citation: Dahrendorf, Ralf (1971) : The foreign trade policy of the EEC, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 9, pp. 270-274, <http://dx.doi.org/10.1007/BF02929116>

This Version is available at:

<http://hdl.handle.net/10419/138523>

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ARTICLES

Common Market

The Foreign Trade Policy of the EEC

by Professor Ralf Dahrendorf, Brussels

The union of the six states of the EEC has brought the largest trading power of the world into being in Europe. Its position will be strengthened further by the accession of Great Britain and other states. The author, who is a Vice-President of the Commission of the European Communities, analyses the problems facing the EEC when concluding trade agreements and in its relations with other states.

Foreign trade has of late aroused a surprising measure of public interest. This applies equally to the activities of the Community itself and to the interest shown by third countries which are its trading partners. This fact may surprise observers who have hitherto looked on the Community as an essentially self-centred, inward-looking organisation. Such a view was probably perfectly justified in the so-called transitional period. With the entry into the final stage however the horizon was widened.

Apart from this shift in emphasis, there are two more reasons for the growing importance of foreign trade which result from the development of the Community directly:

□ *First*, as the customs union has been completed, trade policy, which was always to the fore, has essentially developed into foreign trade policy;

□ *secondly*, the negotiations for the accession of EFTA members automatically raise trade problems for the non-applicants in EFTA and quite a number of overseas countries.

The Basis of External Economic Policy

The specific point of departure for a common policy was Article 111 of the EEC Treaty which since the end of the transition period last year has been superseded by the much more far-reaching Article 113, which says: "After the expiry of the transitional period the common trade policy will be established according to uniform

principles; this will apply in particular to changes in customs tariffs, the conclusion of customs and trade agreements, the unification of trade liberalisation measures, export policy and protective trade policy measures, e.g. against dumping and subsidies." It further defines in this connection the rights of the Commission, the Council and the consultative body which is today known as the "113 Committee".

The Council of the Communities appreciated early what a multitude of issues is raised by the common trade policy. In a decision of unusually fundamental nature on December 16, 1969, it therefore gave rulings on a number of important matters. These concern, i.a., the tacit or explicit extension of existing agreements, the procedure for the opening of negotiations on new agreements and the well-known exceptional arrangement for negotiations with certain third countries until December 31, 1972. This last-mentioned arrangement, which is intended to apply to the communist states of Eastern Europe and Asia, according to the text of the ruling refers to third countries "insofar as Community negotiations according to Article 113 of the Treaty are not yet possible", and is linked with a consultation procedure which has since been strictly observed by all members.

Limits of Foreign Trade Policy

Unfortunately the Council has been less liberal in applying the Treaty to the substance of foreign trade policy; the various references to "trade

policy in the meaning of Article 113 of the Treaty" are probably to be understood in a limited sense, or at least not as extending its scope.

To go by the interpretation hitherto applied by the member states to Article 113 and, more particularly, by its effect on the first Council mandates for trade agreements, very close limits are set to the Communities. The unresolved contradiction between the far-reaching political anticipations of the partners and what can in fact be offered to them merely touches the surface of the problem. The problem is one of substance. The Communities are so far competent to deal with trade agreements regulating questions of customs tariffs, quantitative restrictions and similar issues. But who has still an interest today in such agreements? Was it not part of the purpose and effect of the Kennedy Round to obviate agreements of precisely this kind? And the Kennedy Round already took place against the background of GATT. Both of these are supplemented by international commodity agreements.

There are, strictly speaking, only three spheres left in which classical customs and trade agreements still make some sense:

In regard to Japan where however unilateral liberalisation measures will lead to a far-reaching alignment with other world trading partners by the end of 1971;

in regard to the state trading countries of the East where the economic system is a basic impediment to commerce being developed beyond primitive barter and, moreover, Community competence has not yet been established; and

in regard to agricultural products which were exempted from the Kennedy Round. Here, it is true, the common agricultural policy offers little scope for trade policy arrangements.

Through the Mixed Commission . . .

A restrictive interpretation of Article 113 is thus hardly a suitable basis for a substantive common policy. The Commission has stressed this repeatedly, and it would presumably be very difficult in actual fact to find interested parties for trade agreements of this kind if the agreements of the Communities were not providing for an instrument which at a first glance does not seem to be very important but actually touches upon a notable feature of modern international economic relations: the Mixed Commission.

The commercial treaty of the European Communities with Yugoslavia, for instance, states:

"The Mixed Commission takes care of the undisturbed operation of this agreement and examines all issues which may arise in its application. Moreover, the Mixed Commission is in the framework of a regular co-operation to make suggestions of all kinds for the development of commerce on a basis of advantage to both contracting parties."

. . . to Co-operation Agreements

Hence the functions of the Mixed Commission (in the case of Yugoslavia the first meeting was held in Belgrade early in January 1971) go thus beyond the other provisions of the agreement; the reference is to "suggestions of all kinds for the development of commerce". In actual fact a large number of more far-reaching questions of common interest are bound to be discussed in the purview of such Commission meetings. The Mixed Commission is already an instrument for "regular co-operation", and *co-operation* may be at the core of such agreements as may now and in future be expected for:

technical and industrial co-operation;

skeleton arrangements for joint ventures between business firms;

co-operation in third countries, above all in development policy;

a system of direct settlements of conflicts in accordance with a code of good conduct; and

co-operation by means of credits and investments in the partner country.

Mixed Commission meetings provide evidence of all this; but a Commission of this kind cannot resolve the newly arising questions. Here it comes up against the limits of the agreements to which it owes its own existence.

As an instrument of external relations the *trade agreement* has however rendered valuable services to the Community and interested countries. For many countries trade relations with a highly developed economic area such as the European Community are still favoured means for speeding up their own growth, to say nothing of the political-psychological repercussions.

Emphasis on Trade Policy towards the Associated Countries

This holds good, for instance, for the regions on which the Community has concentrated to a special degree in the past: the Central African

and Mediterranean areas. As regards the 18 African States and Madagascar which were associated with the Community by the Yaoundé Convention in 1964, the trade arrangements are complemented by considerable financial aid from a special Community fund, but the Arusha Agreement which was concluded later for the benefit of the three contiguous East African States provides solely for foreign trade preferences. In the Mediterranean region, where the Community more recently made special efforts for a policy of stability desirable in the interest of the countries concerned, trade aspects are the decisive element in the various agreements, although the use of the term "association" may occasionally give the impression that these agreements go farther than is really the case. Only the treaties with Greece and Turkey contain provisions which go substantially beyond a mere regulation of trade because these agreements allow already for accession in the future.

The Principle of Balance in the Mediterranean Region

The policy towards Turkey and Greece reflects the principle which has hitherto determined all Community policy in the Mediterranean area: the principle of balance; respect for it is in this region, more than in others, politically indispensable. Just as it proved impossible to deny to Turkey the concessions made to Greece as a European partner in Nato and OECD since Turkey was in a very similar position, so it was found politically inexpedient to conclude an agreement with Israel without making a corresponding offer to Arab States. For this reason agreements were recently concluded with Tunisia and Morocco (in 1969), Spain and Israel (in June 1970).

The fact that nevertheless the Community has recently been subjected to a cross-fire of criticism from other trading partners in the world on account of this preferential trade policy in the Mediterranean area does not militate against this commitment; for this policy is not directed against anybody. The Community will make further efforts to develop this policy in the indicated direction by adding to the instruments at its disposal.

Apart from its special relations in the Mediterranean and Central African regions, the Community has also played an exemplary part in evolving the "Generalised Preference Scheme" for manufactures and semi-manufactures in favour of all developing countries, which is undoubtedly the most important scheme projected in the sphere of trade policy since the Kennedy Round. The Community was not only most con-

sistent in pursuing this scheme but, unlike other trading powers, and despite considerable internal opposition, did not exclude the textile sector from its offer. And though eventually the offer was in technical terms more complicated than originally intended, though even in its revised form it is still relatively modest in regard to agricultural produce and though the share of industrial products in total exports from these countries is as yet comparatively small, I think that one can speak of a first break-through in trade policy vis-à-vis the developing countries as a whole. The latter rightly feel that they have hitherto been neglected in international commercial relations.

Relations with Third Countries

The Community is also endeavouring to intensify its world trade connections on a regional level. It responded most positively to the Buenos Aires declaration which demanded closer relations with the Community for the Latin American countries represented at the Ecla meeting in July 1970. Negotiations on trade agreements have since been started by the Community with Argentina and Brazil, but an extension of the preferential agreements to this region is not in view.

The trade relations of the Community with the countries of Asia have likewise so far been limited. The British entry negotiations have however prompted some Commonwealth countries to initiate trade policy talks with the Community. India suggested a comprehensive trade and co-operation agreement as early as September 1970, and Pakistan has applied for a trade agreement and Malaysia for association.

The only regional bloc towards which the Community does not yet pursue a unified trade policy are the so-called state trading countries of the East. Not only for political but for technical reasons (differences in the degree of liberalisation, complications in most-favoured-nation treatment resulting from status differences under GATT, etc.) the Council under Title III of its ruling of December 16, 1969, postponed the transfer to the Community of the competence for trade policy in this respect by three years. Accordingly the member states are entitled to conclude bilateral trade agreements with Eastern Bloc states until December 31, 1972, but such agreements must not remain in force later than the year 1974 and are subject to a very detailed procedure of intra-Community consultation designed to ensure co-ordination of the trade policies by 1973.

Although resistance has not yet ceased in this respect, I am convinced that the Eastern Bloc,

the Soviet Union included, will not be able to close its eyes in the long term to the fact that the European Communities, accounting as they do for 20 p.c. of world trade, have become the most important trading power in the world. The Kennedy Round and the recent GATT talks on averting protectionism are proof of this fact.

Tension in Relations with the USA

After the accession of Great Britain and other EFTA States the enlarged Community will account for about 30 p.c. of world trade. It is not perhaps surprising that this development and its portents for the future are evoking certain reactions from its trading partners. The Community is fully aware of the responsibility which results from this development and has neglected no opportunity for expressing its willingness to solve problems of trade policy in a liberal sense. Nevertheless certain indications of tension have appeared of late, especially in the relationship with its most important trading partner, the USA.

The development of relations between the United States and the European Communities was for a long time determined almost exclusively by two factors: The US wish to foster the co-operation of the free states of Europe and the common adherence to principles of action in respect of unfettered world trade.

These two elements are today still the safe foundation of our relations. But we are forced to note that the successful conclusion of the Kennedy Round negotiations in 1967 marked a final point, for the time being, in the efforts pursued over many years in order to remove obstacles to the free flow of world trade. There has been increasing evidence since, at least in the USA, of a slowing-down, if not a reversion, of the process in which that country played such a crucial part.

The repeated postponement of the abolition of the American Selling Price System for chemicals which had been envisaged as part of the Kennedy Round, the treatment by Congress of the Trade Act 1970, known as the Mills Bill, which at first had quite liberal features but was gradually adulterated in a protectionist sense, especially by the House of Representatives (quota regulations for textile and shoe imports), the introduction of the release mechanism for further quantitative restrictions and the DISC (Domestic International Sales Corporation) scheme virtually exempting export enterprises from corporation tax — have all caused manifest disquiet, not only in the European Communities, but also among other trading partners of the USA in the world. Con-

versely, the repercussions of certain elements of the Community's policy on foreign trade have come in for an increasing amount of criticism in the USA.

Criticism of the EEC's Agricultural Policy

The criticism is directed primarily against the agricultural policy of the Community. It is argued that maintenance of prices above, and in part considerably above, the world market level, lack of control over production and the Levy and Compensatory Payments system on the external borders of the Community are imposing a handicap on US farm produce seeking access to the Common Market and distort competition in the markets of third countries.

Such criticism easily overlooks that the common agricultural policy is based, above all, on motives of social policy as well as economic and integration aims and that the problem is by no means confined to the Community but applies to the whole world.

It may therefore be stated that in the final analysis the agricultural policies of almost all countries have more or less marked protectionist repercussions even though their systems differ. The USA is no exception.

To go by the quantitative results, the American criticism, it may be said incidentally, does not seem to be justified in this generalised form. There have, it is true, been some years when there was a slight downturn in the total value of US farm exports to the Community. This trend however was by no means confined to the European Communities; it was indeed more marked in the case of EFTA which has no common agricultural policy. Hence it is obviously wrong to blame the agricultural system of the Community for such developments which are more likely to be due to structural reasons such as the above-average increase in farming productivity throughout the world in the face of low demand elasticity. Besides, US agricultural exports to the Community rose by over 25 p.c. in 1970, yielding a surplus of over \$ 1.5 bn.

Objections to the Association Policy

There seems to be just as little economic justification for the other main object of US criticism of the Community's trade policy. The USA has come out as the strongest critic of the preference and association policy of the Community, charging that it is fundamentally incompatible with the GATT regulations (Art. 24: Qualification of customs unions and free trade zones for exemption

from the most-favoured-nation clause) and harmful to specific US trade interests. The complaints, which refer to citrus fruit and tobacco in particular, are in the Community's view really disproportionate to the economic and commercial significance of the problems.

The European Communities are however perfectly willing to discuss all specific differences with their trading partners and look for solutions acceptable to both sides. Contacts for the solution of these technical questions have been developed in the course of recent years between representatives of the various Departments of the US Administration and the corresponding Directorates in the European Commission.

Greater Opportunities for the USA . . .

Besides, the special problems cannot efface the fact that US trade with the Community has expanded in a quite spectacular fashion ever since its inception.

In 1958-70 US exports to the EEC rose by about 180 p.c., compared with about 140 p.c. for the EFTA countries and 120 p.c. for the rest of the world. Moreover, foreign trade between the USA and the EEC was marked throughout the sixties by a Community balance of trade deficit of between 1 and 2 bn leading up to a record shortfall of 2.4 bn in 1970. The Community has thus not only steadily consolidated its position as by far the most important trading partner of the USA but a careful assessment of the causes leads to the conclusion that the enlarged market of the European Communities has opened greater opportunities to their trading partners, including the USA, as well as to their members.

. . . and Closer Integration with Japan

The same is true, if in much more limited measure, of the other great trading partner in the world which attracts growing interest from the European Communities: Japan. The trade relations between the European Communities and Japan, contrasting in this respect from those between the USA and the European Communities and also between the USA and Japan, have not yet attained a level at which the two areas become interdependent. The volume of business done between them, at 1.5 bn., accounts for little more than 2 p.c. of the external trade of the Communities and 5 p.c. of that of Japan. Japan's exports to the European Communities have however grown about eightfold since 1968, and though this fact reflects a low starting level rather than absolute importance of the trade integration achieved, it is indicative of the much-discussed export and growth intensity of Japan's economy to which the European Com-

munities like others will have to pay more attention in future. It is only natural therefore that the European Communities searched for ways of putting their relations with Japan on a formal basis almost as soon as they had embarked on a common trade policy. Following exploratory talks in February 1970, negotiations on a comprehensive trade agreement began in September last.

The relations between the European Communities and Japan are still in their beginnings. Japan is warily pursuing a way to closer international integration but regards the European Communities in particular as a politically innocuous and therefore welcome partner. The European Communities are looking to an arrangement concerning their relationship with Japan as a means of creating the prerequisites for permanent settlement of the causes of economic friction which are making themselves felt every now and then.

The Damocles' Sword of Protectionism

In this situation each of the three great trading partners in the world is visited by its own protectionist temptations. In the European Communities they arise from the long-felt misgiving that preoccupation with internal developments may make some neglect of their external effects inevitable. The two great ventures of the economic and currency union and the enlargement of the Community have added to these misgivings. In Japan protectionism is traditional. The remarkable liberalisation programme of the Japanese Government which is supposed to be advanced by another two big steps this year—in March and September—deserves recognition. But there are many regulations left, above all in the sphere of capital transactions and investment, which keep Japan's own market apart from the world. In the United States old leanings towards protectionism have been augmented and reinforced by new ones.

If in this situation one of the three were to give way to protectionist tendencies, a chain reaction would be bound to be set off because of the mutual integration. The European Communities would in any case be hit most. We depend on free and intensive world trade; Japan does not yet to the same extent, and the USA has never done so to more than a limited extent. Here then is our strength and our weakness: Protectionism on the part of the others would endanger our exports, even if it were to assume the form of a bilateral agreement of voluntary restriction between them. By the same token, protectionism on our part would imperil our exports, even if it were only a temporary reaction to measures by the others. By conviction and self-interest the European Communities are champions of unfettered world trade.