

# Sri Lanka and the European Economic Community

Jayantha Kelegama

*The European Economic Community (the "Common Market") is one of the largest trading blocs in the world. Recently Sri Lanka signed a general trade agreement with the E.E.C. and procedures are now being finalised to enforce the commercial co operation agreement from December this year. Most members of the E. E. C. constitute generally that region which colonized the rest of the world for over five centuries. Some of the recent agreements with the E.E.C. have been with most of its ex-colonial countries. Critics have assailed some of the new agreements as being a continuation of neo-colonialism. In this article Jayantha Kelegama examines the history of the E. E. C. and its new relationship with Sri Lanka. Dr. Kelegama is the Secretary of the Ministry of Internal and External Trade and was intimately involved in the negotiations with the E. E. C.*

The European Community is an association of nine West European countries working together to improve their people's living and working conditions by eliminating as many national barriers as possible and welding into one economic unit their nine national economies. The founding members were Belgium, France, Germany, Italy, Luxembourg and The Netherlands—commonly known as "The Six" with a population of 180 million. The United Kingdom, Ireland and Denmark became members on January 1, 1973, thereby increasing the six to "The Nine". Legally there are three European Communities: (1) The European Coal and Steel Community (ECSC) created by the Paris Treaty of April 18, 1951, to pool the six nations' coal, steel, iron ore and scrap resources in a single market; (2) The European Economic Community (EEC) commonly known as The Common Market established by the Treaty of Rome of March 25, 1957 to create a customs union and integrate the six nations' economic policies; and (3) The European Atomic Energy Community (Euratom or EAEC) established under a Second Treaty of Rome of March 15, 1957 to provide for the development of a community-wide atomic energy industry and of other peaceful uses for nuclear energy. Since July 1,

1967, however, the three Treaties or Communities have been administered by the same institutions and the three communities are referred to as "The Community".

The suffering and destruction of World War II and the determination to prevent another European conflict prompted the movement toward economic and political unity. Two ruinous global wars, followed by economic and social collapse, taught the founding members the limitations of national sovereignty. Individually, Western European powers had become a secondary influence in world affairs; united, they could constitute an economic power of continental scale. They saw the economic disadvantages of a continent fragmented by internal barriers. They were, therefore, willing to try a different way of organising their relations with each other: they were prepared to seek a solution in common. The deeply felt need for closer co-operation gave rise successively to the Brussels Treaty Organisation (later known as Western European Union), the Council of Europe and the Organisation for European Economic Co-operation, all established immediately after the War. These European organisations provided new means of consultation and co-ope-

ration but they did not meet fully the need for greater security for prosperity. This, they decided, could come off from pooling of their economic resources.

The first of the three Communities, the European Coal and Steel Community, was successfully launched as a pilot plan for future integration of Europe on May 9, 1950. Inspired by the ideas of Jean Monnet, the man responsible for the French National Economic Plan, Robert Schuman, Foreign Minister of France, on that day appealed to the nations of Europe, and to Germany in particular, to pool their coal and steel under a common authority. Five nations—Belgium, Germany, Italy, Luxembourg and the Netherlands—responded favourably, and this led to the signing of the Paris Treaty in 1951 creating the Community. The Coal and Steel Community began to create a single market for coal and steel for the six-member countries, enabling these products to be traded freely. Although similar efforts in the 1950s to set up European defence and political communities failed, the coal and steel community succeeded and encouraged the Six to try to extend the formula to the whole field of economic activity. At a conference held in Italy in 1955, the Six produced a plan for two new communities—EEC and Euratom.

## Advantages of a Single Market

The Six had seen in the coal and steel sector the advantages of a vast single market where goods could move freely. The creation of one multinational unit with 180 million people, instead of 50 million as in France or Germany, was expected to promote greater wealth and economic stability than a single nation of 50

million for fewer inhabitants. Finally, it was hoped that economic integration would help lead to the long-term goal of political unity. Experience gained in the European coal and steel community helped in the establishment in 1958 of the European Economic Community and the Euratom.

The EEC or the Common Market, with free movement of persons, goods, services and capital and the development of common agricultural and commercial policies, was to be created over a transition period of twelve years beginning on January 1, 1958. Some of the objectives, however, were achieved ahead of schedule. By July 1, 1968, one and a half years ahead of the original target date, there was free trade within the community both in industrial goods and in most farm produce. The Six had eliminated intra-community tariffs, and established a common tariff on goods imported from non-member countries.

The European Community emerged as the world's third most powerful industrial unit after the U.S.A. and the USSR. It had by 1970 the world's second largest output of cars, after the United States, and the third largest output of steel. It was also one of the world's leading agricultural producers—the second biggest producer of milk and meat. Its rate of economic growth was very impressive. Between 1957 and 1969 its gross product increased by 95 per cent compared with increases of 61 per cent in U.S.A. and 42 per cent in the U.K. The Community's foreign trade increased more rapidly than the others. From 1958 to 1970 its exports and imports from other countries increased in value by 183 per cent compared with 149 per cent in the U.S.A. and 107 per cent in the U.K. Trade between the member states increased even more sharply—by 330 per cent—over the same period. The Community is the world's largest trader and the major importer from developing countries. In 1970, the Community's imports from the rest of the world amounted to \$45,622 million and its exports \$45,199 million compared with United States' imports worth \$41,056 million and United States' exports worth \$42,157 million.

The Community is also an important source of aid to developing countries. In 1969 the total flow of official and private resources to developing countries and multilateral aid agencies including the European Development Fund totalled \$5,197 million compared with \$4,645 million from the U.S.A. and \$1,069 million from Britain. Net disbursements from the Community countries amounted to about 40% of western aid. The Community also grants food aid under the food-aid agreement negotiated with GATT in 1967. It is responsible for 23% of the food aid to developing countries (U.S.A. 42% and U.K. 5%).

One of the main goals so far reached by the Community of Six as mentioned earlier is a customs union by the removal of tariffs, quotas and other trade barriers between the members so that goods move freely as in one large country. The customs union also meant the establishment of a common external tariff to all imports from the rest of the world so that the goods imported from non-community countries are subject to the same import duties in all the member countries. National tariffs of the Six were aligned on the common external tariff in three steps, the last of which was in July 1968. For most products the level of the common external tariff was fixed at the arithmetical average of the tariffs applied on January 1, 1957 by the six members; for some key products, however, it was fixed by negotiation between the six. With the reductions in the common external tariff by about 35-40% carried out in 1971 under the Kennedy Round Multilateral Tariff Cutting Agreement, the Community's tariffs have become the lowest of all industrialised countries. The common external tariff on industrial goods averages 6 per cent compared to 7.6% in the U.S.A. Since completing the common external tariff, the Community has unilaterally made several cuts without asking for reciprocal concessions, in duties on products vital to some developing countries. In 1963, it suspended entirely its duties on tea, mate and tropical hardwoods, reduced its duties on coffee and cocoa by 40% and on shellac, various spices and other tropical products by 15-20%.

## MEMBERSHIP AND ASSOCIATION

The influence and impact of the Community—as the largest trading power in the world—is so decisive that many countries have sought membership, association or trade agreements with the Community. Full membership is open only to European states; some European countries have been allowed association with the Community as a step towards eventual membership, e.g. Greece, Turkey, Malta and Cyprus. The Community also allows certain developing countries to become "associates". The Rome Treaty provided for links between the European Community and the colonies and other dependencies in Africa and elsewhere of France, Belgium, Netherlands and Italy.

### The Yaounde Convention

After 1958, however, nearly all the French and Belgian colonies in Africa became independent, and all of them, except Guinea, accepted association with the Community under the famous Yaounde Convention signed in 1963 and renewed in 1969. The 18 signatories of the Yaounde Convention are: Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Zaire (then Congo-Kinshasa), Dahomey, Gabon, Ivory Coast, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo and Upper Volta. These countries constituted the former French West Africa, Belgian Congo and Madagascar, and their total population is about 70 million. In 1973 they were joined by Mauritius making the associates 19 in number.

The association provides for the gradual formation of a free trade area between the Community and the 19 associates, liberal aid from the Community to the 19 and co-operation through specially created political institutions. The cardinal feature in the trade between the Community and the associates is that all exports from the associates receive preferential treatment in the Community over exports from non-associates. Most products of the associates actually enter the Community duty free. The associates in turn are expected to give preferential treatment to their imports from the Community, they

have reduced the import duties and abolished quota restriction on these imports. The Community's imports from the associates rose by 107% from \$913 million in 1958 to \$1,889 million in 1970, while its exports to the eighteen rose rather slowly by 75% from \$713 million to \$1,249 million in the same period.

The associates are also given financial assistance through the European Development Fund set up in 1958, in addition to direct bilateral aid from individual Community countries. Funds are provided on soft terms for economic and social development in the associates. Thus under the first Yaounde Convention \$800 million was provided by the EDF: of this \$620 million or 78% were grants. Of the \$918 million granted to the eighteen under the Second Yaounde Convention \$748 million were grants. The relations between the Community and the associates, implementation and supervision of agreements, frequent contact and arbitration are ensured by an elaborate institutional framework consisting of an Association Council of Ministers, Association Committee, Parliamentary Conference and Arbitration Court.

### The Arusha Agreement

Three other African countries which were not former colonies of member countries, viz Kenya, Uganda and Tanzania, were offered a different type of association in 1968 under the Arusha Agreement. This agreement provides for mutual trade preferences on a wide variety of products, but more limited in range than under the Yaounde Convention. Further, there is no provision for development aid from the Community as under Yaounde. In general terms it allows the three countries to export their products to the Community duty free except that quotas are applied to coffee, cloves and pineapples. In turn, they have agreed to grant tariff concessions on some 60 EEC products. The agreement is implemented and supervised by a Joint Association Council while a Joint Parliamentary Committee also meets periodically.

Apart from membership and association, the Community allows links with the Community to be maintained

and strengthened by means of Trade Agreements. These Trade Agreements generally involve mutual tariff reductions on industrial and agricultural products. The Rome Treaty obliged the Community to take over the special economic links that existed between some of its members and countries in the Mediterranean area. Thus Trade Agreements were signed with Morocco, Tunisia, Algeria, Lebanon, Egypt, Israel, Spain and Yugoslavia. In the case of Yugoslavia, the Community grants special treatment for its baby-beef exports to the Six. In addition to the Mediterranean countries, the Community has signed agreements with Iran, India and some Latin American countries granting them special concessions for specific exports to the Six. While the Eastern European Socialist countries, except Yugoslavia, were hostile to the Community at the beginning and attacked it as a "capitalist plot" they have softened their attitude in recent years and some of them have already had unofficial talks with a view to closer relations. China, on the other hand, supports the Community and plans to have direct dealings.

### BRITAIN AND THE EEC

Britain emerged from the Second World War undefeated, with her economy suffering less damage than other European countries, one of the Big Three Powers and her national institutions were regarded as vindicated and strengthened. Few Britons in the decade after the war, saw a need to surrender any elements of British sovereignty to Europe. Elsewhere in Western and Northern Europe, Sweden, Switzerland and Ireland had remained neutral during the war, and were determined to maintain their neutrality. Denmark and Norway, though both had been occupied during the War, had strong links with Britain and Sweden. Towards the end of the 1950s, however, Britain was realising the advantages of participating closely in European economic integration. The worsening economic problems, balance of payments difficulties, grant of independence to colonies and loss of influence in world councils were factors which changed the situation. It was then thought that the European countries which did not become members of the European Community should join with the Community in estab-

lishing a wider European free trade area. This plan, however, lacked general agreement. Then Britain and some other countries which had not joined the Community—Sweden, Denmark, Norway, Switzerland, Austria, Portugal and Iceland—"The Eight" established the European Free Trade Association (EFTA) with the objective of establishing industrial free trade between the members and removal of trade barriers and the promotion of closer economic co-operation between all the members of the OEEC (succeeded in 1961 by the OECD) including members of the Community. It was also recognised that some members of EFTA might eventually wish to join and others to see closer trading arrangements with the Community.

The vigorous economic growth of the Community as compared to her own lagging economy beset by recurring balance of payments crises led Britain to investigate membership of the Community in 1961. France, however, decided that Britain was not ready to assume full membership responsibility and ended the negotiations abruptly in 1963. Thereafter in 1967, Britain under Labour Government made its first formal application for membership but this failed to evoke a favourable response from the Community. After the retirement and subsequent death of Charles de Gaulle and the successful 1969 "Summit" meeting of political leaders of the Six in the Hague, negotiations began in earnest in June 1971 and the United Kingdom, Ireland and Denmark became members of the Community on January 1, 1973.

The contrast between the Community and Britain had become more marked over the years since 1961. By 1969 the Community countries had rates of growth of gross national product per head of population or of private consumption per head, about twice as great as Britain's. In the period 1959-69 the Six devoted 24% of their GNP to investment compared to Britain's 17%. Further, in this period the Community earned a surplus in the current account and maintained a strong balance of payments position while Britain had a cumulative deficit and a weak position. In 1958 average earnings in Britain were similar to those in

France, Germany, Belgium and the Netherlands and over half as high as those in Italy. By 1969 average earnings in Italy had caught up with British earnings while those in other Community countries were between a quarter and a half higher on the average than Britain's. Britain had thus fallen behind the Community countries. The attraction of the Community to Britain in this context as the British application for membership in 1967 emphasized was "the long-term potential for Europe and therefore for Britain of the creation of a single market approaching 300 million people, with all the scope and incentive which this will provide for British industry and of the enormous possibilities which an integrated strategy for technology on a freely continental scale can create".

The Commonwealth, in Britain's view, could not offer comparable opportunities. The White Paper "The United Kingdom and the European Communities" refers to this subject as follows:—

*"The member countries of the Commonwealth are widely scattered in different regions of the world and differ widely in their political ideas and economic development. With the attainment of independence, their political and economic relations with the United Kingdom in particular have greatly changed and are still changing. They have developed and are still developing with other countries' trade and investment arrangements which accord with the requirements of their basic geographical and economic circumstances. The United Kingdom's share of the trade of the Commonwealth has declined sharply over the last decade. In absolute terms United Kingdom exports to the Commonwealth have grown only slowly whilst our exports to the EEC have expanded much more rapidly, and in 1970 exceeded our exports to the whole of the Commonwealth. For many Commonwealth countries, too, the European Community increasingly appears as a more attractive trading partner than the United Kingdom. It is significant that the East African Commonwealth countries have now given the Community trade preferences over us"*.

The decision to join the Community was, therefore, logical. The White Paper states:—

*"Our geographical, military, political, economic and social circumstances are so similar to those of the Six, and our objectives so much in common, that it is in our best interest to join forces with them in the creation of a wider European Community of free nations, whose joint strength and influence on the world can be so much greater than that of its individual members. If we remained outside the Community, we should have to maintain*

*our national interests and develop our national resources on a narrower base. No doubt we could do this; but the task of doing so would impose progressively heavier burdens on us, and would become progressively more difficult, as European political and economic unity proceeded without us in a neighbouring Community several times our size"*.

The European Community of the "Nine" is the world's largest trading "power". In 1971 the Nine imported goods to the value of £64 billion or 24.3 per cent. of world imports. The imports of USA by contrast were \$46 billion or 16.5% of world imports. The exports of the Nine in that year were \$63 billion or 27.6% of world exports; those of USA were \$44 billion or 17% of world exports. It is also relevant to note that Japan's share in world-trade is only 8%.

The membership of the Community enjoins Britain to adopt the Common External Tariff of the Community and to eliminate all tariffs on trade between her and the Six. These, however, are to be carried out in four stages to be completed by July 1, 1977 as shown below:—

Adoption of CET by UK		Cumulative movement towards adoption of CET	
Date	%		%
Apr. 1, 1973	...	...	—
Jan. 1, 1974	...40	...	40
Jan. 1, 1975	...20	...	60
Jan. 1, 1976	...20	...	80
July 1, 1977	...20	...	100

The implication of the adoption of the CET by Britain is that those Commonwealth countries which are not associates and which enjoy free entry to the British market will have the CET applied to their exports gradually. To those countries not having a preferential position and paying the British tariff it will mean some advantage as the CET in general is lower than the British tariff. The phased out adoption of the CET over 4½ years, however, provides some time for adjustment for the non-associate Commonwealth countries.

The other important aspect of Britain's entry to the Community is the offer of association status to all British dependent territories other than Gibraltar and Hong Kong and all independent Commonwealth developing countries with the exception of those in Asia. Thus 21 independent Commonwealth countries, main-

ly in Africa, the Caribbean and the Pacific, were offered three options: association *a la Yaounde*, limited association *a la Arusha* or Commercial Agreement; and they were required to make a decision by January 1975. These countries are:—

Bahamas, Barbados, Botswana, Fiji, Gambia, Ghana, Grenada, Guyana, Jamaica, Kenya, Lesotho, Malawi, Nigeria, Sierra Leone, Swaziland, Tanzania, Trinidad and Tobago, Tonga, Uganda, Western Samoa and Zambia.

Britain also secured from the Community special concessions for New Zealand's exports of dairy products which constitute 15% of her export earnings and of which Britain alone buys 80%. New Zealand is assured of a guaranteed export quantity at a guaranteed price for her exports of dairy products to the Community for five years. The Community has also undertaken to safeguard the interests of sugar exporting countries who are members of the Commonwealth sugar agreement. Nearly all these countries, except India, will also be associates of the Community.

The associates joined forces with the existing associates to form the African, Caribbean and Pacific countries (or ACP); this group consisted of 46 members—19 associates, 21 associates mentioned earlier plus 6 others who were subsequently offered association: Ethiopia, Guinea, Eastern Guinea, Guinea (Bissau), Liberia and Sudan. (Angola and Mozambique could join when their independence was completed). The Yaounde Convention was due for re-negotiation by January 1975 and hence it was agreed that both associates and associates must join forces to negotiate for the best possible terms and conditions with the Community in the new Association Agreement. These negotiations took 18 months and were concluded in February 1975; a new Convention far wider in scope than the Yaounde was signed at Lome in Togo, and is called the Lome Convention.

#### The Lome Convention

Under the Lome Convention, the ACP countries enjoy duty free entry for all industrial exports (local origin

or value-added content being 50% of the total value) to the EEC. In the case of agricultural exports, they enjoy duty free access for about 96 per cent of their products while the remainder enjoys a margin of preference over third countries. The ACP countries had right from the beginning made it clear that they were not prepared to accord any reciprocity for the trade concessions granted by the EEC. Thus, under the new Convention, they will only apply equal treatment to imports from and exports to the EEC not less favourable than applied to imports from and exports to third countries. This not only ensures that there will be no discrimination by the ACP countries against imports from the EEC but also that the EEC would not suffer from discrimination with regard to access to raw materials from the ACP countries.

The European Development Fund under which the associates of the former Yaounde Convention received financial assistance from the Community has been substantially increased. The Yaounde Convention had provided a fund of 935 million units of account (one unit of account equals US \$ 1.35) for a period of 5 years ending December 1974. The new EDF amounts to 3.39 billion units of account for 6 years. The EDF consists of 2,625 million units of account: 2,100 million in non-repayable subsidies, 430 million loans on special conditions (40 years at 1%) and 95 million risk capital; in addition there is 375 million for the Stabex Fund and 390 million in loans from the European Investment Bank.

### Stabilisation of Export Earnings

Perhaps the most important feature of the Lome Convention is the establishment by the EEC of a Stabex Fund, initially of 375 million units of account to compensate losses in export earnings by ACP countries resulting from a fall in prices of their commodity exports to the Community. This scheme covers cocoa, coffee, cotton, copra, coconut, oil cakes, ground nut, ground nut oil, palm oil, hides and skins, wood products, bananas, tea, raw sisal and iron ore; the list is subject to revision after 12 months. The principle is that a country will receive compensation if its export earnings

## The forty-six countries of the Lome Convention at a glance



Source: European Community

from any commodity falls more than 6.4% below the average of the previous 4 years and also provided that the export earnings of the commodity are at least 7.5% of the total export earnings. The cut-off point for the 24 least developed, land-locked or inland countries is, however, 2.5%. These financial transfers are interest-free repayable by all except the 24 most deprived countries. Although the Stabex Fund is not a commodity agreement in the normal sense of the word, it is similar to the multi-commodity agreement proposed by the UNCTAD. Like commodity agreements, the Stabex ensures stability in export earnings. Furthermore, it covers almost half the developing countries of the world.

Special reciprocal arrangements for sugar exports of the ACP countries have been written into a separate protocol. The EEC guarantees to purchase a minimum of 1.4 million

tons of sugar per year and the ACP countries agree to supply this quantity. The EEC also guarantees a minimum price which is subject to annual review. The minimum price is the intervention price for sugar for the Community producers under the Common Agricultural Policy. Under normal conditions the intervention price in the U.K. should now be around £150 per ton. Under the special circumstances prevailing in the sugar market in 1974 and early 1975, the U.K. has agreed to buy from Commonwealth sugar producers at £260 per ton c.i.f. during the first year. The advantage to the ACP countries under the sugar agreement is that it is for a period of 5 - 7 years, and the Community has undertaken to pay a minimum guaranteed price which the Community pays its own sugar producers. This means that there is an indexed minimum price as long as the Protocol is in force.

The new Convention also provides for industrial co-operation comprising exchanges of information, studies, promotion of contact between businesses under the auspices of an industrial co-operation committee and an industrial development centre. Each ACP State will endeavour to give as clear an indication as possible of its priority areas for industrial operation. It will also take such steps as are necessary to provide effective co-operation with the EEC and Member States and their firms "who comply with the development programmes and priorities of the host ACP State".

The Lome Convention has been hailed as one inaugurating a new type of relation between industrialised and developing countries. Mr. C. Cheysson, responsible for co-operation on development in the European Commission declared that "this agreement is unique in the world and in history; for the first time, an agreement between industrialised countries and the Third World is reached with perfect equality between the two parties, an equality made possible by the fact that it is an entire continent which negotiated."

### A European Commonwealth

The 'Lome' Treaty inaugurates a new "European Commonwealth" mainly of Europe and Africa bound together by a network of trade concessions, economic assistance, co-operation and other facilities which are not available to other developing countries. This special relationship between Europe and Africa has not been sympathetically viewed by the U.S.A. on the grounds of discrimination amongst developing countries and special privileges to the EEC. It is U.S.A.'s view that the concessions given to ACP countries should progressively be incorporated into the GSP (Generalised Scheme of Preferences). The special relationship with the ACP countries is in the view of the EEC a model for developed-developing country relationships which others should eventually

adopt. The EEC is not prepared to extend these concessions to all developing countries as its resources are inadequate to shoulder the problems of the Third World as a whole.

### The Seven Outside

The Commonwealth developing countries which were not offered associate status on Britain's accession to the EEC are only those in Asia, India, Pakistan, Bangladesh, Malaysia, Singapore, Sri Lanka and Hong Kong, called "The Seven Outside". They were offered neither full association *a la Yaounde* nor partial association *a la Arusha*. They were originally not even offered special trade agreements *a la Iran, Egypt, Yugoslavia &c.*

Britain, to these Asian Commonwealth countries, is still the largest single market. Britain's imports from Commonwealth Asia in 1970 amounted to \$916 million of which \$327 million or 36% were 'agricultural goods' (BTN 1-24) and \$589 million or 64% manufactures (BTN 25-99). Hong Kong accounted for half of these imports of manufactures. Approximately one-third of the total imports from Commonwealth Asia (\$304 million) entered Britain duty free at most-favoured-nation rates and, therefore, had no tariff preferences over competing imports from any other countries, e.g. tea, rubber, jute and hardwoods. With the introduction of the Generalised Scheme of Preferences by Britain in 1972, Commonwealth Asia lost preferences on a further \$255 million or 28% of their exports to Britain; they now shared these preferences with all developing countries. Thus the balance imports from Commonwealth Asia which benefitted from the remaining Commonwealth Preferences after the introduction of the British Generalised Scheme of Preferences amounted to \$557 million or 39% of the total imports. It was on these products that Commonwealth Asia was expected to suffer loss of preference on Britain adopting the Common External Tariff of the EEC. The value of these preferences has been estimated at \$34 million.

—(Peter Tulloch—The Seven Outside, Overseas Development Institute, 1973, p. 13).

The effect of the Community's preferential trading arrangements with associates and other selected countries was trade discrimination against Commonwealth Asia. Peter Tulloch summarises this position in his book "The Seven Outside" as follows:—

*"As non-associable developing countries, Commonwealth Asian States will move during the next four years from a situation where their products still receive a certain amount of preferential treatment over non-Commonwealth competitors in the British market to one where they face substantial discrimination, in Britain, in favour of other EEC countries, EFTA members (on industrial goods including textiles, leather goods, clothing, electronics), existing Community associates and any new Commonwealth associates; in the market of the Six, in favour of new members, EFTA partners and new associates; and in the EFTA 'rump' in favour of the members of the enlarged community".*

The EEC considered the Generalised Scheme of Preferences as the main instrument for dealing with the Commonwealth Asian countries. This was hardly a compensation as it was extended by the Nine to all developing countries equally. The enlarged Community, however, was desirous of expanding its trade with Commonwealth Asia and expressed its willingness to examine with these countries such problems as may arise in the field of trade after the enlargement of the EEC with a view to seeking appropriate solutions. This intent was incorporated in the Joint Declaration of Intent on the Development of Trade relations with Ceylon, India, Malaysia, Pakistan and Singapore in the Treaty of Accession by Britain as follows:—

*"Inspired by the will to extend and strengthen the trade relations with the developing independent Commonwealth countries in Asia (Ceylon, India, Malaysia, Pakistan and Singapore), the European Economic Community is ready, from the date of accession, to examine with these countries such problems as may arise in the field of trade with a view to seeking appropriate solutions, taking into account the effect of the generalised tariff preference scheme and the situation of the other developing countries in the same geographical area".*

Thus the general approach was to defer the consideration of the problems of Commonwealth Asia until after the act of enlargement of the EEC.

## SRI LANKA

### Implications of UK's Entry to EEC

The United Kingdom was Sri Lanka's largest single trading partner and her decision to join the EEC was bound to have certain implications on Sri Lanka's international trade. In 1972, Sri Lanka's exports to the U.K. amounted to Rs. 265m. or 13.3% of her total exports and to the Six Rs. 180m. or 9%. Thus exports to the U.K. exceeded those to the Six. Sri Lanka's exports to the Nine including Denmark and Ireland amounted to Rs. 461m. or 23% of her total exports. The enlarged EEC accounting for about 25% of the country's exports is the largest market for Sri Lanka. The table below shows the latest figures of Sri Lanka's trade with the enlarged Community:—

### Proportion of Selected Exports to the Enlarged EEC

Commodity	% of total exports to all countries of the Community
Desiccated coconut ...	60.5
Tea in bulk ...	24.7
Instant Tea ...	77.9
Pepper ...	28.4
Cinnamon chips ...	53.0
Cloves ...	27.3
Coconut oil in bulk ...	41.6
Glycerol lyes ...	100.0
Cocoa ...	38.8
Tobacco ...	99.9
Citronella oil ...	63.3
Cinnamon bark oil ...	80.8
Cinnamon leaf oil ...	60.2
Essential oils—other ...	78.5
Natural rubber ...	17.2
Leather—bovine ...	97.4
Coconut shell charcoal ...	52.5
Coir fibre ...	52.5
Footwear ...	72.0

In the case of imports, the largest supplier in the enlarged EEC is France which in 1974 supplied 38.6% of Sri Lanka's imports from the Com-

The main imports from the EEC, as the table below shows, are wheat flour, milk and cream, machinery and equipment, transport equipment, iron and steel products and chemical products. The largest supplier of wheat flour is France.

So long as the U.K. remained outside the EEC, Sri Lanka was not unduly perturbed regarding her trade with the EEC. The decision of the U.K. to join the EEC, however, changed the picture and required Sri Lanka to make a re-appraisal of her future relations with the EEC. As the enlarged EEC was the largest single export market, as shown above, it was imperative for Sri Lanka to ensure that the policies of the EEC would not impair her position as an exporter to the EEC. In fact it was necessary that the EEC took appropriate steps not only to maintain but also to increase her imports from Sri Lanka.

### SRI LANKA'S TRADE WITH ENLARGED EEC—1974

Country	Exports to Rs. m.	As % of total Exports to Sri Lanka	As % of total Exports to EEC	Imports from Rs. m.	As % of total Imports of Sri Lanka	As % of total Imports from EEC
Belgium ...	29	0.8	3.4	35	0.8	3.9
Denmark ...	12	0.3	1.4	48	1.0	5.3
France ...	48	1.4	5.7	346	7.6	38.6
Germany, F.R. ...	197	5.7	23.4	199	4.4	22.2
Ireland ...	11	0.3	1.4	14	0.3	1.6
Italy ...	93	2.7	11.0	59	1.3	6.6
Luxemburg ...	n.a.	—	—	n.a.	—	—
Netherlands ...	99	2.9	11.7	24	0.5	2.7
U.K. ...	354	10.3	42.0	170	3.7	19.0
Total EEC ...	842	24.4	100.0	896	19.7	100.0

Sri Lanka's domestic exports to the enlarged Community were Rs. 842 million in 1974 or 24.4 per cent of the total exports of the country, and Sri Lanka's imports from the enlarged Community in that year amounted to Rs. 896 million or 19.7% of her total imports. The U.K. is the largest single country market taking 10.3 per cent of Sri Lanka's total exports or 42 per cent of Sri Lanka's exports to the enlarged EEC. The second largest customer in the Community is Germany with 23.4 per cent of the exports; Netherlands and Italy are the next important customers—11.7% and 11% of the exports to the Community. The importance of the Community market is further illustrated by the high proportion of certain exports of Sri Lanka sold to the enlarged Community:—

community. France was followed by the Federal Republic of Germany with 22.2 per cent. The U.K. supplied only 19 per cent of Sri Lanka's imports from the enlarged Community and 3.7 per cent of Sri Lanka's imports from all countries. Thus the U.K. is more important to Sri Lanka as an export market than a supplier of imports. The major imports of Sri Lanka from the Community is shown in the following table:—

### SRI LANKA'S IMPORTS FROM ENLARGED EEC—1974

	Value of Imports Rs. m.	As % of total imports from all countries
Wheat flour ...	427	50.0
Milk and cream ...	50	75.4
Mineral products, e.g. fertiliser ...	57	25.0
Chemical products, e.g. synthetic yarn ...	53	46.0
Iron and steel products ...	21	57.0
Machinery, equipment ...	40	48.0
Transport equipment and spare-parts ...	24	66.8
Postage stamps ...	3	89.2

### Dangers of EEC Import Tariffs

The main problem as far as Sri Lanka was concerned was the import tariff on her exports to the EEC. Britain was a sheltered market. Most of Sri Lanka's exports entered the British market duty-free or at low tariff; in addition, they enjoyed a preferential tariff against her non-Commonwealth competitors although this preference, as shown elsewhere, was not considerably attenuated by the British GSP implemented in 1972. This situation was now to change as follows:—

- (i) The U.K. was adopting the Common External Tariff of the EEC in stages—1972-77. This meant that Sri Lanka's exports which were mainly duty-free were to be subject to an import duty in the British market. For instance, coconut oil which entered Britain duty-free formerly would now have to pay a tariff of 5 to 15% according to usage in the EEC; cinna-

mon, cloves, pepper, cardamoms, nutmeg, canned fruits, fruit juice, cut flowers, fish, crustaceans, packeted tea and instant tea which all had duty-free access to the British market would now have to pay tariff varying from 6% to 32% according to the commodity.

(ii) With the adoption of the Common External Tariff, the U.K. was bound to extend preference to the EEC Associates. This meant that not only had Sri Lanka to pay tariff on her exports which were hitherto duty-free in the British market but also that her competing associated territories were to be given tariff preference against her. For instance, coconut oil from Sri Lanka which entered the British market duty-free formerly had not only to pay now a tariff of 5 to 15% but it had to compete with coconut oil from the non-Commonwealth Associates which had formerly paid 15% tariff in the U.K. but were now given duty-free access. Thus the loss of preference in the British market for Sri Lanka's coconut oil was in the region of 20 to 30% as compared to non-Commonwealth associate countries.

(iii) While all Commonwealth countries had to compete on equal terms in the EEC (other than Britain) in the past, there was now discrimination against those Commonwealth countries which were not granted associate status—they had to pay the CET while the associates enjoyed concessionary tariff. Thus the former Commonwealth countries who became associates had a competitive edge on countries like Sri Lanka in the European market of the EEC and thereby would threaten Sri Lanka's share of the continental market.

### Trading Problems with EEC

Sri Lanka's main fear was the possible diminution of the British market as a result of loss of preference on her exports. For over 150 years, on account of close political

and economic relations with Britain, Sri Lanka's exports had been almost completely geared to the requirements of the British market. It would therefore require considerable investment of resources and several years to change effectively the pattern of the country's export production and the direction of trade if Sri Lanka is compelled to reduce her dependence on the British market. Sri Lanka also noted the impressive economic development and expansion of international trade of the EEC and realised the vast potential for her exports in the prosperous EEC market. It was therefore Sri Lanka's main objective to retain the British market and at the same time increase her exports to the larger market of the EEC as a whole.

It was the time that the two principal exports of Sri Lanka—tea (in bulk) and natural rubber—would continue to enter the enlarged EEC duty-free, but there were a number of other exports, small in value but increasing from year to year, referred to above, against which there was discrimination as compared to the associates. The sheltered market where Sri Lanka enjoyed preferential access was to give way to an open market where some of Sri Lanka's competitors had preferential access. Apart from this, the enlarged EEC provided the best market for Sri Lanka's new industrial products and non-traditional exports and it was essential that Sri Lanka should have unrestricted access to this market. This meant that some sort of arrangement or understanding was necessary to consolidate and expand the trade relations with the EEC.

Although those Commonwealth countries in Africa, Caribbean and the Pacific, heavily dependent on the export of primary products like Sri Lanka, were offered the choice of three alternatives to safeguard their interests, viz. full association under a renewed Yaounde; limited association under article 238 of the Treaty of Rome; or an agreement to facilitate and expand trade, no such options were offered by the EEC to Sri Lanka. Perhaps the underlying assumption was that Sri Lanka and Commonwealth countries in Asia were industrially more developed than other Commonwealth countries in Africa, and that therefore they could benefit from the GSP without additional

trade concessions. It has to be admitted that the other Commonwealth countries in Asia have already had considerable experience in the export of manufactures and semi-manufactures and are indeed in the forefront of the developing countries which export manufactures to the developed countries. For example, India exported, in 1969, manufactures (excluding petroleum and unworked non-ferrous metals) to the value of \$547 million or 30% of her total exports; Pakistan \$197m. or 29%; Malaysia \$130m. or 8% and Singapore \$ 60m. or 4%. Sri Lanka, however, was not so well developed industrially; in 1969 her exports of manufactures were only \$3 m. or less than 1% of her total exports. Clearly she was not in a position to exploit the GSP in its original form.

The Joint Declaration of Intent indicates that the situation of the other developing countries in the same geographical area will be taken into account by the EEC in the examination of problems that may arise for Sri Lanka and other Asian Commonwealth countries in the field of trade. Among these countries are a number which already export manufactures and semi-manufactures to the developed countries and which together with other independent Commonwealth countries of Asia will be in a more favourable situation than Sri Lanka consequent on Britain's accession to the EEC and the introduction of the GSP. Some of these countries which exported manufactures in excess of \$10 m. in 1969 were: Hong Kong \$1,484 m., Taiwan \$570 m., South Korea \$365 m., Philippines \$138 m., Iran \$133 m., Thailand \$ 30 m., Indonesia \$ 22m. and Burma \$12 m. Another interesting feature was that six of the independent Commonwealth countries to which a choice of alternatives for future relationships of a preferential character had been offered, exported manufactures, exceeding \$10 m. in 1969: Ghana \$ 113 m., Nigeria \$38, Trinidad and Tobago \$36 m., Jamaica \$30 m., Kenya \$ 18 m. and Tanzania \$13 m.

In these circumstances, the assumption that the GSP would solve the problems of Commonwealth Asia was not valid in the case of Sri Lanka. Nearly all the Commonwealth countries in Asia, the majority of non-

Commonwealth countries in Asia and even some other developing countries who had been offered association, were in a better position to benefit from the GSP than Sri Lanka which is still a primary producer. On the contrary, with the introduction of GSP by Britain and Canada, Sri Lanka lost valuable trade preferences in these markets for which she failed to receive adequate compensatory benefit from the EEC.

The impending situation was serious enough for, Sri Lanka to bring to the notice of the EEC her trading problems with a view to seeking appropriate solutions for them. Thus at the end of October 1972, the Government of Sri Lanka through a special envoy presented an *Aide Memoire* to the European Commission outlining her trading problems (as indicated in the paragraphs above) and hoping that the community would "agree to provide Sri Lanka special facilities in the markets of the Community by means of appropriate arrangements in the tariff and non-tariff fields, as well as other measures designed to promote the development and diversification of Sri Lanka's trade with the enlarged Community". This was followed by the appointment of a resident ambassador to the Community in June 1973.

### Most Urgent Problem

The most urgent problem for Sri Lanka was, thus the loss of trade preferences in the British market and the need to mitigate the adverse impact of this on her trade with the EEC. The second was the more general question of establishing suitable machinery for dealing with Sri Lanka's long-term relations with the EEC. In regard to the former, the general approach of the Community was against any preferential trade arrangement, but was to look at each of the specific commodities that were of concern to Sri Lanka and to consider what solutions were possible in terms of the Generalised Scheme of Preferences (in accordance with the Joint Declaration of Intent). The EEC was of the view that the alignment of Britain's tariff with the Common External tariff and the harmonisation of Britain's GSP with that of the community in January 1974 should be made an opportunity to revise and liberalise the Commu-

nity's GSP so as to provide some relief to the trade problems of non-associates like Sri Lanka. On representations made by Asian Commonwealth countries, the Community affirmed that the Joint Declaration of Intent was an on-going commitment to be reviewed constantly. This meant that the Community regarded the relief to be provided in 1974 as an initial and not a final step.

The benefits to Sri Lanka from the liberalisation of the Community's GSP in 1974 and 1975 have already been fully discussed. It was shown that with these concessions, most of the problems that Sri Lanka would have encountered as a result of Britain's accession to the EEC have been either removed or mitigated, and 95 per cent of Sri Lanka's exports to the enlarged EEC now enjoy duty-free treatment. It is therefore on the balance 5 per cent of Sri Lanka's exports that further action through the GSP is required. It is a fact that any tariff concession through the GSP clashes with the preferential treatment given to the associates and the Community finds it difficult to liberalise further without creating opposition from the associates. The progressive and pragmatic approach of the Community to the GSP, as demonstrated in recent years, and the community's policy of balanced development between the system of generalised preferences and the policy of association, however, seem to indicate that the Community will consistently improve and extend the GSP to meet most of Sri Lanka's requirements.

The second question, as referred to earlier, was the one concerning Sri Lanka's long-term relations with the enlarged EEC. It was not in the trading interests of Sri Lanka to stand as a complete outsider to the EEC; it was not enough for her to receive benefits only through the Community's GSP. It was necessary to make the Community take serious notice of Sri Lanka and if possible formalise the mutual trade relations through some institutional machinery. Britain's membership of the EEC, as shown above, on the one hand, meant a certain weakening in our traditional trade links with Britain. The Community's association policy, which excludes Sri Lanka, on the other hand, created a further lacuna. There

was thus a compelling need on our part to seek to establish better machinery than existed hitherto for dealing with Sri Lanka's trade relations with the Community and for strengthening our long-term economic relations with it. This was the main task in the negotiations in 1973 between Sri Lanka and the Community.

### The Commercial Co-operation Agreement

There was a new factor which strengthened Sri Lanka's case for special recognition: this was the conclusion of a Commercial Co-operation Agreement between the Community and India at the end of 1973. This agreement institutionalised the relationship between the Community and India by setting up machinery in the form of a Joint Commission to meet at stipulated intervals for the purpose of reviewing their mutual trade problems. It was regarded as a "framework agreement" which can provide for the strengthening of relationships between the two parties in the future. In addition to this agreement, India also signed special agreements on jute and coir manufactures providing for a progressive relaxation of tariffs on these items.

The Community was, however, not prepared at the beginning to proliferate agreements *a la India*. India was regarded as a special case; the Co-operation Agreement with her was justified on the grounds of her large size and the diversified nature of the economy. But once the door had been opened for special relationships, it was difficult to close it in the face of others knocking on the door. A precedent had been created. Apart from the active canvassing by Sri Lanka, Pakistan was pressing for a commercial co-operation agreement similar to the one with India and Malaysia and Singapore were negotiating in a bloc with ASEAN for a bilateral agreement. It was difficult, therefore, to refuse to Sri Lanka what had been offered to India and what was being considered to be offered to Pakistan. The Community also had by now realised that the many developing countries were unable to utilise fully the Community's GSP to increase their exports, and dismantling of tariff barriers was not in itself a sufficient incentive for the development of trade. The producers and exporters of developing countries,

it was recognised, needed help both to find markets in Europe and to adjust their production to these markets. The decision to accede to India's request for a commercial co-operation agreement was based on the Community's commitment in the Joint Declaration of Intent, the declining volume of India's trade in spite of efforts to improve it through tariff concessions and the realisation that more positive assistance would be needed to reverse this trend. These arguments applied equally to the requests from Sri Lanka, Pakistan and Bangladesh. The Community thus came round to the view that in order to make a substantial contribution to progress in these countries, trade co-operation going beyond mere tariff concessions was called for. Negotiations were held in November-December 1974 in Brussels between the Commission of the European Communities and Sri Lanka to finalise the Commercial Co-operation Agreement and it was formally signed in May 1975.

### The Sri Lanka EEC Agreement

The Commercial Co-operation Agreement between the European Economic Community and Sri Lanka is very similar to that of the Community with India. The object of the agreement is to develop, deepen and diversify their commercial and economic relations on the basis of comparative advantage and mutual benefit so as to contribute to their economic and social progress and to the improvement of the balance of their mutual trade to as high a level as possible. The main features of the agreement are as follows:—

- (i) *The two parties grant to each other most-favoured-nation treatment and undertake to promote the development and diversification of their mutual trade to the highest possible level. They grant to each other the highest degree of liberalisation of imports and exports which they apply to third countries in general and shall endeavour to provide maximum facilities compatible with their respective policies and obligations with regard to goods and services and interest to either party (in the Indian agreement only products are covered).*

- (ii) *The EEC abandoned its original intention of asking Sri Lanka for an explicit commitment to grant the EEC non-discriminatory access to natural resources in view of Sri Lanka's opinion that it could be considered to impose a limitation on our concept of territorial sovereignty as embodied in our constitution and further that the commitment in question would simply have constituted an interpretational declaration of the provision already laid down according to which the two parties exchange the greatest degree of liberalisation for imports and exports, and also that the commitment should have been mutual. Provision is made for economic and commercial co-operation.*

- (iii) *A Joint Commission is established comprising representatives of both parties and it will meet once annually or more frequently by common agreement. It is the Joint Commission's task to ensure proper functioning of the Agreement and achieving its objectives by:—*

- (a) *studying and devising ways of overcoming trade barriers;*  
 (b) *endeavouring to find ways of encouraging the development of economies and economic co-operation so as to develop and diversify trade;*  
 (c) *facilitating exchanges of information and encouraging contacts to create favourable conditions for economic co-operation.*

- (iv) *The Agreement is for a period of five years and shall be extended from year to year if neither party wants it terminated.*

The Commercial Co-operation Agreement also includes four annexes. The first annexe is a Joint Declaration concerning the Joint Commission. This provides for the two parties in the Joint Commission to transmit their recommendations to their respective authorities for action and emphasises that the Joint Commission should, when making recommendations, have due regard to Sri Lanka's development plans and to the progress of economic, industrial, social, environmental and scientific policies

of the Community as well as to the level of economic development of the two parties.

In the second annexe the Community agrees to bind the tariff reductions and suspensions already applied autonomously in respect of the products of particular interest to Sri Lanka as follows:—

1. Desiccated coconut ...	2%
2. Tea—in bulk ...	free
Tea—in packets ...	5%
3. Pepper for industrial use ...	free
4. Cinnamon: ground ...	10%
Cinnamon: other ...	8%
5. Cardamoms: ground ...	free
6. Bovine cattle leather: East India Kip. ...	free

In the case of four items: tea, pepper, cardamoms and East India Kip, the Community had given tariff bindings to India on the same basis. These tariff concessions will remain valid throughout the duration of the agreement.

The third and the fourth annexes are Declarations of the EEC and Sri Lanka respectively concerning tariff adjustments. The Community is prepared, in the course of its endeavours to improve the Generalised System of Preferences, to take into account the interests of Sri Lanka in the extension and strengthening of its trade relations with the Community. The Community is also prepared to examine in the Joint Commission the possibilities for further tariff adjustments on Sri Lanka's exports to promote the development of trade between Sri Lanka and the Community. Sri Lanka is prepared on the other hand, to discuss the Community's proposals with regard to tariff adjustments by Sri Lanka bearing on the development of trade between the two parties taking into consideration Sri Lanka's development needs. This section is an improvement over the Indian agreement in that whereas the Indian agreement provides for a once-for-all examination of tariff concessions sought from the EEC, the Sri Lanka agreement provides for a continuous review and a readiness on the part of the Community to examine Sri Lanka's trade problems, from time to time, with a view to finding appropriate solutions.