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Brussels, August 1971

THE US SURCHARGE OF 10% -
position adopted by the Community at GATT meeting
of 24 and 25 August

Introduction

1. With regard to the disequilibrium in the US balance of payments:
 - (a) The EEC contests the explanations put forward by the United States on the causes:
 - (i) the unfair economic and commercial policies of its trading partners and
 - (ii) the monetary policies pursued by third countries, which have undervalued their currencies in relation to the dollar.
 - (b) On the contrary, the EEC considers that the current situation is first and foremost a result of the policies pursued by the United States.
 - (c) Be this as it may, it must today be recognized that the United States Administration was faced with a situation that called for remedial action.
2. The EEC contests the appropriateness and the legitimacy of the trade measures which, because of their scale constitute a threat to the international trading community.

These fears are aggravated by the discriminatory impact on third countries of the measures taken or announced.

I. The 10% surcharge

- (a) This surcharge is not in conformity with the rules of GATT.
- (b) It gives rise to serious difficulties for the trading partners of the United States. The EEC regrets that the United States should have considered it necessary to accompany the measures taken in the monetary and domestic fields by the imposition of a surcharge on imports. The foreign trade situation has undoubtedly deteriorated, but the trade

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account is still nearly in balance: the relative deterioration recorded recently seems to be largely due to incidental factors such as a large number of labour disputes or threats of disputes in the ports and various economic sectors, the slowdown of economic growth in foreign markets and, lastly, the not unimportant influence of various speculative factors connected with the elements of uncertainty in the monetary field and the fear that the United States would resort to the protectionist measures on imports or compel its foreign suppliers to restrict their exports to the US.

It should be recalled that for the United States the balance on the foreign trade account is a relatively small item in the balance of payments, particularly when compared with the item covering net receipts from direct investment abroad or the item showing the net outflow of capital to finance these direct investments. The EEC is convinced that the contribution which the IMF will have to make will bring out these various elements of the US balance of payments.

(c) The EEC considers that in face of the critical balance of payments situation, temporary recourse to a surcharge scheme is not appropriate and should be replaced as rapidly as possible by other measures taken at domestic level to remedy the true causes of the deterioration in the balance of payments rather than those advanced by the United States. The EEC is convinced that if the surcharge is maintained for more than an extremely short period, it would have to be considered as evidence of a beggar-my-neighbour policy whereby the United States passes on to its trading partners the burden of readjustment that it should shoulder itself. If the surcharge is to be prevented from adding to the very strong protectionist pressures already apparent in the United States and elsewhere and from acquiring a permanent place in the US tariff structure, it must be abolished rapidly. Maintenance of the surcharge for more than an extremely short period would reverse the process of trade liberalization that has been pursued despite great difficulties, for twenty years and was given such a signal impetus by the Kennedy Round. The results of those negotiations may be jeopardized, particularly since the fifth cut is due to be made very soon. The de facto nullification of its concessions by the United States should therefore be reversed as rapidly as possible.

(d) The attitude taken by several spokesmen of the US Administration implies that abolition of the surcharge is to be contingent on the adoption of a variety of measures by its trading partners. On this point, the EEC wishes to state firmly that such an approach would be completely unacceptable to the Community - and presumably to the other trading partners of the United States - since it would mean negotiating on the basis of a withdrawal of concessions made by one party precisely with a view to negotiations.

II. Job development tax credit

In the package of measures announced, there is another which is liable to do grave harm to the trade interests of the partners of the United States and is, moreover, contrary to the obligations of the United States under GATT (Article III). This is the proposal by the US Administration to grant a tax credit of 10% of the cost of new investment, and to reserve the benefit of this tax exemption to machinery and

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equipment made in the United States. This measure would hit a substantial part of our exports to the United States. The effect of this measure added to that of the surcharge would virtually eliminate all possibility of trade in this sector. Under GATT rules imported products should also benefit from the tax credit. If the discriminatory element is not removed, it must be emphasized that the institution of such a scheme by one of the major trading nations would cause conditions to deteriorate and soon provoke other countries to react by adopting suitable measures to safeguard their legitimate interests.

III. DISC tax arrangement

The Community must once again state the view it has already brought to the knowledge of the United States: the DISC tax arrangement, presented as a simple deferment of direct taxes on the export business of DISC firms, is in fact purely and simply a device for subsidizing exports in the form of exemption from direct taxes for an indefinite period. It is therefore incompatible with the obligations of the United States under GATT. The Community contests the claim made by the US Administration when it states that this legislation is necessary if its exporters are to be put on an equal footing in tax matters with their foreign competitors. There are certainly no such tax advantages in the Community, and other countries will undoubtedly react by taking similar measures.

CONCLUSIONS

In conclusion, the Community reiterates its conviction that trade measures were not a suitable means of remedying the serious difficulties facing the US authorities; it cannot agree with the reasons advanced to explain these difficulties and the charges levelled by certain official spokesmen against America's trading partners.

The EEC draws attention to its concern at the protectionist, indeed mercantilist, tone of the statements made by the US authorities when announcing the measures. It trusts that the sense of its international responsibilities will induce the United States very rapidly to revoke the trade measures already taken and to refrain from implementing those of the proposed measures which are incompatible with GATT.

The EEC reserves its rights under the General Agreement, particularly those deriving from the provisions of Article XXIII.

The EEC considers that in the meantime the whole set of measures taken by the United States must be examined without delay by a working party which should report before the end of September.

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