



PROGRESS REPORT

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INTRODUCTION

The second edition of the progress report, launched in July 1993, continues to give an update on major recent developments in EC-US relations⁽¹⁾. It also provides an analysis of the Clinton Administration's external policy as it has emerged so far. With the establishment of the new DG IA - External Political Relations - subsequent editions will include comments on the EC-US political dialogue.

It is important to maintain a close relationship across the Atlantic. In fact, it has often been stated that the US and the EC have the most important political and economic relationship in the world. Each side has major, concrete, overlapping interests in the other. The EC and the USA are consistently each other's largest single trading partner. Their two-way trade in goods and services amounted to about \$280bn in 1991. At the same time, the Community is by far the largest foreign investor in the US economy and the major destination of US direct investment abroad. Cumulative direct investment by EC firms in the US stood at \$219 bn in 1992, representing 52% of total foreign direct investment stock in the US. The US investment stock in the Community was valued at \$200bn.

However, there is more to the transatlantic partnership than just trade. Both share fundamental political principles and both have an interest in promoting these principles in the rest of the world. Their common cultural heritage and the similarity of their security interests provide further cornerstones of EC-US relations.

The overall objectives of the relationship are defined in the "Transatlantic Declaration" of November 1990. This forms the basis for the development of a working partnership between the two sides, delineates their common goals and principles and establishes procedures for consultation and regular interaction. Strengthened by the declaration, a very active bilateral dialogue evolved at all levels and in a wide range of fields.

(New agreements have been signed in the last few years (Competition Policy, Securities Markets) and close cooperation is taking place in several other areas (Financial Services and Macroeconomic/Monetary Issues, Customs, Standards and Certification); a trend clearly exists towards using the transatlantic dialogue to the full extent.

However, the possibilities provided by the Transatlantic Declaration for broadening and intensifying EC-US relations are far from exhausted. Now that the Maastricht Treaty has been ratified by all Member States, the Community is on the road to forming its Foreign and Security Policy. It will develop its capacity to speak with one voice and act with authority. Then, together with the US, it should fully use the platform provided by the Transatlantic Declaration.

In April 1993 the Commission adopted a paper on EC-US relations, which was well received by the Foreign Affairs Ministers of the twelve Member States at their informal meeting in Denmark on 24-25 April. It examines the current state of EC-US relations, focusing on new opportunities for transatlantic cooperation and will serve as guidance on the Community's future policy on transatlantic relations⁽²⁾.

(1) The interested reader is referred to the annual 'General Report on the Activities of the Communities', which includes a chapter on EC-US relations, and to the 'Report on US Barriers to Trade and investment, also published annually by the Commission. For further information, contact A Schomaker, DG I.B.1, tel Brussels 299 01 73.

(2) Both the Transatlantic Declaration and the Commission paper on EC-US relations are available upon request.

THE NEW US ADMINISTRATION'S EXTERNAL POLICY

When President Clinton took office there was a fear that the new US Administration would consider domestic matters as a top priority whilst neglecting external policy issues. However, during the past eight months the US has been heavily involved in foreign affairs issues. There is every indication that an attempt is now being made to define an overall US external policy. Contradictory signals are presently being received from the other side of the Atlantic. After the crucial vote on NAFTA and the APEC Summit in Seattle (see part F), the US might appear to be shifting some more interest towards its immediate neighbours and the Pacific area. At the same time, however, the US continues to emphasize its support for European integration.

THE US AS THE ONLY DOMINANT NATION IN A NEW ERA

The US external policy emerging at present seems to be based on the view that, with the ending of the period of superpower competition, a new era has dawned in which the US is the sole dominant nation in the world.

In the absence of a credible fundamental threat to America's existence since the virtual disappearance of Communism (except in China and Cuba), the US, together with other industrialized countries, is faced with the following major remaining threats: terrorism, proliferation of nuclear weapons, ethnic conflicts, violation of human rights, degradation of the global environment and above all, sluggish economic growth undermining the basic security of the people.

Despite tendencies towards isolationism, in particular in Congress, the US Administration appears to have opted in favour of international "engagement". This decision seems to be based on their economic interests (Uruguay Round, NAFTA) and security concerns (Middle East, former Soviet Union).

"MARKET DEMOCRACIES" IN THE CENTRE OF US EXTERNAL POLICY

The new world situation is perceived as being characterised by a spread, over the last years, of basic US concepts and values: "democracy" and "market economies". In assuming its role of leadership in the world, US external policy will be concentrated on the further enlargement of the world's community of market democracies.

This objective is closely linked to the need to create American jobs and boost American exports. External and domestic policies thus appear to become more integrated.

OBJECTIVES OF THE NEW STRATEGY

This new strategy consists of the following four components:

- The top priority of this pragmatic strategy is to strengthen the core of major market economies (Europe, Canada and Japan) and the ties of the US with these countries. The US, trying to boost its own economy, expects its partners to do something about their poor economic situations, by putting their own houses in order, as well as taking joint action to update international economic institutions, coordinate macro-economic policies and establish fair international trade rules.

- The second objective of this strategy is to help democracy and market economies expand and survive in countries where the US has strong security concerns and where its input can be effective, such as in the CIS, Central and Eastern Europe, the Pacific, South Africa and Nigeria. In this respect, the US intends to help lead the efforts to mobilize international resources, to grant wider access to technology markets and to encourage private and non-governmental groups to participate in these efforts.

- With regard to the so-called "backlash" states, e.g. Burma, Iran, Iraq, the US intends to isolate them diplomatically, militarily, economically and technologically with a view to pushing these countries in the direction of liberalisation (e.g. China, Islamic world).

- In regions with great humanitarian concerns, the US is prepared to help install or support democracy and market economies and respond to hunger and suffering (e.g. Bangladesh, Somalia) by granting economic and military assistance, disaster relief and projects to assist education, nutrition and health. When reformulating its external aid policy, the US intends to focus on the promotion of democratic markets, environmentally sustainable development and early responses to social and economic chaos.

MULTILATERALISM COMBINED WITH UNILATERALISM

The choice in favour of "engagement", as opposed to isolationism, seems to be linked to a combination of, rather than a choice between, unilateralism and multilateralism. Multilateralism being seen as a means not as an end, the US seems to be fully prepared to work together with its partners (in GATT, IMF, OECD, NATO). However, if need be, i.e. when it is in the interest of the US, they will step in wherever it is necessary with appropriate means. The criteria will be very pragmatic: what works best to serve US interests (unilateral or multilateral action)?

UNITED NATIONS

With regard to the functioning of the United Nations, the US is fully committed to contribute to the peace-keeping forces but not unconditionally (e.g. restrictive definition of threat to international peace and security, need for clear objectives and definition of scope of intervention, availability of financial and human resources, prospect for termination of mission) and only with a reduced financial contribution. Overall, the US is in favour of a more effective and efficient functioning of the UN organisation (reformed budget procedures, more dependable sources of military and civilian personnel, better training, better intelligence, better command and control, better equipment and more balanced burdensharing) and the reform of the Security Council. However, it is clear that the US

will not rely on the UN as a substitute guarantor for its vital interests.

NATO

As far as NATO is concerned, the US is of the opinion that it no longer faces a monolithic military threat from the East. The threats are multi-faceted and multi-directional: ethnic and regional conflict, proliferation of nuclear weapons, disruption of the flow of vital resources, terrorism. The US believes that its engagement in European security remains critical to its interest. However, members must update NATO's role in view of the new situation in Europe. It is expected that, at the NATO Summit on 10 January 1994, President Clinton will propose significant changes to the collective security system.

CHALLENGES AND OPPORTUNITIES

From a Community point of view, the new administration's pragmatic and non-ideological approach to external affairs creates important opportunities for increased cooperation. President Clinton expressed his full support for European integration at the Presidential Summit in Washington in May 1993 and a solid working relationship has already been established with the new US Administration in a number of political and economic/trade areas (e.g. Russia, Bosnia, G-7, Uruguay Round).

RECENT DEVELOPMENTS

NEW US REPRESENTATIVE TO THE EUROPEAN COMMUNITIES

Ambassador Stuart E. Eizenstat is the new U.S. Representative to the European Communities.

Eizenstat was chairman of the Washington office of the Atlanta law firm of Powell, Goldstein, Grazer & Murphy, and an adjunct lecturer at the John F. Kennedy School of Government. From 1977-81 he was President Carter's chief domestic policy advisor. He also served the White House as a researcher and speechwriter for President Lyndon Johnson and was research director for Vice President Hubert Humphrey's 1968 presidential campaign.

During the confirmation hearing held by the Senate Foreign Relations Committee on 27 July 1993, Eizenstat stated that the Transatlantic Partnership should remain central to American interests and he drew attention to the inextricable economic and political links between the Community and the US. Eizenstat stressed the need to deepen and extend EC-US ties and to cooperate on the basis of the 1990 Transatlantic Declaration. Addressing the post-Cold War agenda, he highlighted the following areas requiring EC-US cooperation:

- the strengthening of the economies;
- the establishment of democracy, stability and prosperity to the nations of Eastern Europe, Russia and the newly independent states;

- the combatting of new security threats (terrorism, drug traffic, international crime) and reconciling the role of NATO with Europe's security and defence identity;

- cooperation in dealing with foreign policy issues, such as a lasting peace in the Middle East, non-proliferation of weapons of mass destruction to radical countries, encouraging democracy and prosperity in the developing world;

- keeping trade disputes under control; Eizenstat even referred to "the need to develop early warning-systems to identify sensitive trade issues and to develop mechanisms to provide for their early resolution"

HIGH LEVEL MEETINGS



SubCabinet Meeting prepares the ground for enhanced EC-US cooperation

On 22 July 1993, the first SubCabinet meeting between the Commission services and the new US Administration took place in Washington. The Commission's delegation was headed by Mr Horst Krenzler, Director General for External Economic Relations (DG I) and the US delegation by Ms Joan Spero, Under Secretary for Economic, Business and Agricultural Affairs at the State Department. The meeting provided an opportunity to revitalise the functioning of EC-US High Level meetings at SubCabinet level and to further implement the view expressed at the EC-US Presidential Meeting on 7 May 1993 that there is room for improved economic cooperation between the Community and the US. In this spirit, both partners had committed themselves to work together towards a successful Economic Summit, held in Tokyo on 7-9 July 1993 and towards a positive conclusion of the Uruguay Round by 15 December 1993. They had also acknowledged the urgent need to adopt an adequate growth package in order to stimulate the world economy.

Both the EC and the US considered the SubCabinet meeting of 22 July 1993 to be constructive, given that it had enabled both parties to agree on procedures for an improved dialogue and enhanced cooperation in specific areas.

The Community and the US agreed to undertake, in common, a stocktaking exercise on the economic and political aspects of the Transatlantic dialogue. Such an assessment of EC-US contacts and meetings at various levels is to enable both parties to decide how and where their dialogue can be improved by making it more operational.

Both sides also agreed to flag, in the future, politically sensitive issues at an early stage to avoid potential bilateral disputes ("early warning").

The concept of "regulatory cooperation" also received endorsement at the SubCabinet meeting but requires some further reflection. In order to translate this principle into reality, it may be appropriate to identify some pilot projects where the Community and US could enter into dialogue, to avoid or resolve difficulties resulting from differing regulatory provisions.

With a view to enhancing EC-US cooperation, it was agreed at the SubCabinet meeting, to intensify EC-US dialogue during the second half of 1993, especially with regard to employment and competitiveness, including industrial and technology policies and infrastructure networks. Contacts are taking place between EC and US officials in connection with the Commission's White Paper (to be released at the upcoming EC Council on 10 and 11 December 1993) and the G7 Jobs Conference called by President Clinton (and likely to be held in February 1994).

The EC and the US also agreed to start informal work on the issues which are likely to dominate the trade agenda during the coming years. This next generation of trade issues is likely to include trade and environment, trade and competition, trade and investment, trade and technology policy and trade and social issues. EC and US officials held a first exchange of views and further discussions are likely to take place in the near future. This bilateral work may prepare the ground for future multilateral processes.

In addition, the SubCabinet meeting took up an initiative of Vice-President Gore and President Delors and agreed that the Community and the US (and possibly Japan) would work together on the preparation of the International Conference on Population and Development which will take place in Cairo on 5-13 September 1994. In this context, bilateral contacts have taken place and will be intensified over the next few months.

Furthermore, it was also agreed at the SubCabinet meeting that both partners would work together wherever possible with regard to situations in third countries such as Russia, South Africa, etc.

FOREIGN DIRECT INVESTMENT



A series of studies and reports recently published have focused on the importance and the positive contribution of Foreign Direct Investment (FDI) to the U.S. economy. More particularly, a report issued in June 1993 by the U.S. Department of Commerce, in accordance

with the Foreign Direct Investment and International Financial Data Improvements Act of 1990, contains some very useful elements that help evaluate FDI in the context of U.S. economy.

- **Size:** U.S. affiliates of foreign-owned firms still account for a small share of total U.S. GDP (6%). However, in absolute terms, the U.S. is the single-largest host country of inward FDI stocks.
- **Incomes:** Affiliates of foreign firms tend to pay higher wage rates than U.S. owned businesses (this difference was of 22% in 1990, on average).
- **New plant and equipment (P&E) expenditures:** the affiliates' new P&E expenditure rose much faster than such expenditure by U.S. businesses, driving their share of the total (non-agriculture, non bank) private sector P&E to 12% in 1990, the double of their share in gross product.
- **Research and Development (R&D) expenditure:** there was a substantial growth of affiliates' R&D expenditure in the recent years, suggesting a rising contribution to U.S. technology development. In so far as payments of royalties and license fees indicate transfers of technology, there has been an important net inflow of technology.
- **Trade performance:** as a reflection of the growing globalisation of the U.S. economy, 75% of total U.S. merchandise trade in 1990 involved either a foreign-owned U.S. firm or a U.S.-owned multinational. 40% of the total involved related parties at both ends of the trade.

Although U.S. affiliates tend on average to import more than U.S. businesses, due to their more than proportionate presence in the wholesaling /importing sector, they do export. In 1990 their exports accounted for roughly one-fourth of the total contribution to U.S. GDP by all U.S. firms' exports. Also, affiliates' exports accounted for an estimated 1.7 million of the total 7.2 jobs supported by merchandise exports in 1990.

■ Characteristics of European FDI in the U.S.

Cumulative - valued at historical cost basis - **direct investment** by EC firms in the U.S. stood at \$219bn in 1992, representing 52% of total FDI stock in the US (Japan: 23%). European FDI is concentrated in Manufacturing (44%), Petroleum (13.5%), Insurance (10%) and Wholesale Trade (9%).

From a questionnaire survey conducted by KPMG Peat Marwick, it appears that in most of the cases European investment took the form of start-up or greenfield operations (69%). Acquisitions (27%) and joint ventures account for the remaining and are a relatively new, post-1985 phenomenon.

From the same survey, the criteria that play a role in the location decision are economic (proximity to a key industry, market or infrastructures, acquisition opportunity etc) and environmental (living conditions). These heavily outweigh local tax incentives. Also, only a third of firms with European ownership had foreign nationals as their top executive.

From a survey of the top 100 Euro-owned firms, conducted by the European-American Chamber of Commerce, it appeared that for nearly two thirds of them, U.S. sales make up to 20 to 30% of their parent's global revenues, indicating the significant role that the U.S. market plays in these firms' operations. Also, two thirds of them said that they had experienced no difficulties in doing business in the U.S. as European firms. (However, for the rest, "Buy American" programmes were one of the difficulties cited). But 77% of those interviewed also expressed concerns for the near future in connection with tax or other discriminatory legislation. However, 82% of them do not contribute to Political Action Committees (PACs), often used by American companies and 75% do not communicate with their embassies on trade and investment issues.

It is difficult to draw any conclusion from these facts other than that foreign-owned firms tend to behave in a normal, business-like way. There is no evidence that they are engaged into practices which might be harmful to the U.S. economy, such as technology/assets stripping, or that they tend to exercise political influence. On the contrary, there is evidence that they do contribute in a positive and durable way to the growth of the U.S. economy and wealth.

NEWS ON THE URUGUAY ROUND AND BLAIR HOUSE AGREEMENT



■ Uruguay Round

The EC is striving to bring its trading partners to conclude the Uruguay Round negotiations before 15 December 1993 (deadline of US Congress Fast Track legislative procedure).

In the margins of the Economic Summit held in Tokyo in July 1993, the Quad (EC, US, Japan and Canada) had reached an understanding in the market access area which should have led to a balanced package of tariff reductions. However, during the subsequent months, the US and Japan did not implement their commitments in this respect. Despite this, on 19 October 1993, the Community took the initiative to table a tariff list illustrating its commitments entered into in Tokyo. This initiative was very well received by a large number of countries and the Community is now waiting for proposals from the US and Japan.

In the field of trade in services, the revised final text of GATS (General Agreement on Trade in Services) is subject to various reserves from certain countries:

- the US in the field of conditional national treatment of financial services and with regard to maritime cargo and transport;
- the EC in the field of audiovisual services.

Negotiations to expand existing GATT agreements and codes are scheduled, in parallel with the Uruguay Round:

- **public procurement:** On 21 October, the US delivered a revised subfederal offer of entities, states, cities, etc., covered by the Code, as well as an offer on water, urban transport, ports and airports. In it, it offers to cover entities in all 50 states on the basis of commitments obtained from state governments. However, these have not yet been specified.

- **civil aircraft:** the multilateralization of the Airbus Accord of 1992 in the framework of the Civil Aircraft 1979 Code is still impeded by the US request to strengthen, beyond the Airbus accord, the text of the Code for direct subsidies and to relax the provisions on indirect subsidies;

- **multilateral steel consensus:** the multilateralization of the steel disciplines has slowed down because the US insists on the strengthening of disciplines on subsidies while not offering any solution to the pending anti-dumping and countervailing duty procedures (see below, E/3/a).

■ Blair House Agreement

In November 1992, the European Commission and the US administration reached agreement on a number of agricultural issues in the context of both bilateral EC/US trade disputes and of the Uruguay Round.

Whereas the Council has now adopted the texts which settle the bilateral disputes relating to oilseeds and malt sprout pellets, it has not yet approved the other aspects of the agreements. The joint General Affairs/Agriculture Council of 20 September 1993 addressed the issue of the agriculture negotiations in the Uruguay Round and aspects of the Blair House Agreement.

In general, the Council reaffirmed its commitment to the conclusion of the Uruguay Round by 15 December 1993. As regards agriculture, it was concluded that the Community must ensure that its international obligations are compatible with the Common Agriculture Policy (CAP). Thus, the results of the Uruguay Round in the agriculture sector should not call into question,

directly or indirectly, the continued existence of the CAP and should respect its basic principles. The necessity of maintaining the Community's role as an agricultural exporter and of assuring its place in international agricultural markets was underlined.

The Council gave the Commission negotiators a mandate to continue discussions in order to clarify and further interpret the Blair House Agreement. As regards, in particular, the implementation of the bilateral dispute regarding the import of Corn Gluten Feed from the US into the Community, the current regime has now been extended until 30 June 1994 in order to allow a global resolution of the problems which some Member States have with the Blair House texts.

Notwithstanding, the Commission is currently sparing no effort, in both bilateral and multilateral discussions, in order to actively seek a solution to all outstanding problems so that the terms of the Blair House Agreement can be successfully integrated into a global Uruguay Round solution.

EC-US BILATERAL ISSUES



■ Spotlight: GATT Panel on US car taxes - no action against the environment!

The Community's request for a GATT Panel to look into the question of conformity of US regulations on car taxes (CAFE, Gas Guzzler Tax, Luxury Tax) with GATT rules on national treatment has aroused some irritation among US environmental groups. Faced with these concerns, the Community takes the following position:

The request for a GATT panel does not conflict with the aim of achieving higher fuel economy standards in the US. On the contrary, if the GATT Panel concludes that the US taxes are discriminatory against imports, the US Government would not be prevented from using its taxation system to encourage fuel efficiency, but would be obliged to apply such taxes in a non-discriminatory way to both domestic and imported cars.

The Community has not only participated fully in all global environment protection initiatives but also has often led the field in its own internal activities. It naturally supports international cooperation to ensure environmental protection and sustainable economic growth worldwide. However, the protection of the environment should not be invoked in favour of laws which are discriminatory or protectionist. For this reason, the EC believes that, ideally, any environmental measures which affect trade should be taken either in full respect of the national treatment principle or on the basis of international consultations and multilateral environ-

mental agreements. This would help all governments to avoid the type of confrontation which the unilateral adoption of such measures can generate.

The European Community does not take the view that GATT has the competence to set environmental standards or to review the environmental priorities of individual countries. The GATT is, however, a multilateral treaty, laying down basic principles and specific obligations for all its members (over 100 countries) in their conduct of international economic relations. The GATT does not write environment protection rules. In setting up the legal basis for a liberal world trade system it rather seeks to ensure that whatever special interests there may be, these find balanced but not disproportionate consideration in the working of the trade system.

The European Community does not contest in any way the right of individual countries to take measures to protect the environment. However, it looks to ensure that those laws do not discriminate against imports. With regard to the US car levies under scrutiny by the GATT Panel, the discriminatory effect is very evident. Over 70% of the tax revenue resulting from the Luxury Tax, 100% of the revenue from the CAFE penalties and 85% of the revenue from the Gas Guzzler Tax comes from tax on European cars which have an average market share in the US of around 4%. This result is clearly not accidental but rather is produced by the methods of calculation, the precise cut-off points and the exemptions provided for.

The exemption, for example, of such gas guzzlers as mini-vans and pick-up trucks from the Gas Guzzler Tax is clearly beneficial to sales of these predominantly US-built products, but seriously undermines the effectiveness of the law as an energy-saving tool. As to the Luxury Tax on cars, according to an article of the Wall Street Journal of 9 August 1993, the indexation of the Luxury Tax threshold to inflation by the 1993 Omnibus Budget Reconciliation Act was made "in response to US automakers ... so that the levy mostly hits foreign models". This must give rise to serious doubts about the intentions of some of the drafters of the legislation.

■ Other GATT issues

Tuna-dolphin

The US Marine Mammal Protection Act of 1972 (MMPA) as amended by the International Dolphin Convention Act of 1992 aims at protecting various species of marine mammals, in particular dolphins. The MMPA provides for trade sanctions on countries failing to observe comparable standards for protection of dol-

phins. Primary embargoes on imports of tuna and tuna products are currently imposed on Mexico, Venezuela, Colombia and Panama and so-called secondary embargoes were imposed on several "intermediary" nations who import yellowfin tuna products from countries subject to primary embargoes and export yellowfin tuna products to the US. The latter include Italy and Spain.

A GATT Panel that was requested by Mexico in 1991, concluded that both embargoes, direct and indirect, are GATT illegal. As Mexico, for political reasons (NAFTA negotiations) did not request the adoption of the Panel, the Community launched its own GATT procedure against the US. The Panel proceedings are currently underway and the Panel's report should be available shortly.

Again, the Community does not contest the validity of the objective of this environment protection law; on the contrary, the Community shares the environmental goals. However, the Community considers that measures for the conservation of living resources, including dolphins, should be achieved through international cooperation rather than through unilateral actions.

Domestic content requirement on imported tobacco

Section 1106 of the Omnibus Budget Reconciliation Act of 1993 (Tobacco Program) contains, inter alia, a 75% domestic content requirement for tobacco used in the manufacture of cigarettes in the US. The EC and a number of other GATT Contracting Parties have now requested consultations with the US on this legislation under GATT.

■ Ongoing concerns about:

Steel Trade

Steel continues to be a central issue in EC-US trade relations. Disagreement between the EC and the US persists both with regard to the current US anti-dumping (AD) and countervailing duty (CVD) procedures and the negotiations for the conclusion of a Multilateral Steel Agreement (MSA).

Despite the link between a satisfactory solution of these cases, the MSA and the market access package to be agreed in the Uruguay Round, US government and industry have so far shown little flexibility on any of these issues. On the contrary, on 15 September 1993 the US Department of Commerce (DOC) initiated a new AD/CVD investigation against imports of grain-

oriented electrical steel from Italy (and Japan). Meanwhile, the Commission's GATT challenge of the US determinations continues its course: the panel on the lead & bismuth case held its first meeting on 27-29 September 1993 and a second meeting is scheduled for 8-10 December 1993.

With regard to the most important product group involved, flat-rolled steel, the ITC issued its final determination on 27 July 1993, finding that roughly 50% of the Community exports under investigation had caused injury to the US steel industry. That being said, the decision upheld many of the arguments put forward by the Commission and confirmed that the approach adopted by the American steel industry was unjustifiable. It thus helped to substantially defuse what had become a grave trade matter. However, both this and the previous DOC final determination continue to raise serious concerns and a series of consultations on the dumping and injury aspects of the final determinations took place in Geneva on 2-23 July and 30 September. On 26-27 October a conciliation meeting was held. The Community is currently examining the information provided by the US in these meetings with a view to taking further GATT action.

The MSA talks are entering a decisive phase. Plenary meetings took place in Geneva from 4-7 October 1993 and from 16-17 November, informal talks were held on 27-29 October 1993 in the margins of the OECD Steel Committee meeting. A compromise package prepared by the Commission and supported by Member States was presented by Sir Leon Brittan in his September talks with US Trade Representative Kantor. The EC proposal has not yet met with a clear response from the US side. The US appears to regard the EC offer as insufficient, insisting - despite the rules of the Draft Final Act Subsidies Code - on countervailing research subsidies.

Government Procurement

As part of the EC-US bilateral agreement on government procurement of 21 April 1993, an EC-US jointly financed study is being carried out. It aims at assessing government procurement opportunities in both EC and US markets. This study is expected to be completed by the end of January 1994 and is considered to be necessary before restarting the negotiations on telecommunications by the EC and the US. The sanctions in procurement imposed by the US since 18 May 1993 against the EC for its allegedly discriminatory policy in telecommunications are still in place. The EC counter-sanctions adopted on 8 June 1993 are also still being implemented.

Aircraft

This year's second consultations under the 1992 EC/US Agreement on Trade in Large Civil Aircraft took place in Washington on 8-9 October. They proved useful and allowed both parties to reaffirm their full commitment to the agreement and its future implementation. However, both sides disagreed on the interpretation of certain provisions of the agreement. The Community is particularly concerned about the US methodology for calculating indirect support provided to the US aircraft industry.

As regards the discussions about a multilateralization of the agreement, the EC is concerned about the slow progress of these GATT negotiations and about the recent US approach to them. The US proposals submitted in Geneva diverge from the provisions of the Bilateral Agreement in that they call for a reduction in the level of support over time and do not expand coverage to other aircraft products as laid down in the Agreement.

Shipbuilding

Formal negotiations on a multilateral agreement in the shipbuilding sector resumed in September 1993 at the OECD in Paris.

The participants negotiating in the OECD are the European Community, the United States of America, Japan, South Korea, Sweden, Finland and Norway. The aim is to reach an international agreement on the elimination of all obstacles to normal competition in the shipbuilding sector, including Community direct and indirect support schemes and Japanese Home Credit Schemes, the home build requirements set out in US legislation (the Jones Act) and dumping practices, namely injurious pricing, with respect to Japan and South Korea.

Meanwhile, at the end of September 1993, the United States Administration unveiled a 5-part programme aimed at rejuvenating the US civilian shipbuilding industry by increasing its worldwide competitive position through federal loan guarantees to US shipyards and a new maritime R&D programme. In addition, the programme calls for a regulatory reform review programme and the increased use of existing export promotional programmes to help US shipyards secure foreign orders. These proposals will be debated in the US House-Senate Conference Committee before the end of 1993.

Other legislative developments continue to cause concern such as the Gibbons Bill's (HR 1402) provisions imposing unilateral trade sanctions against foreign-built ships which are registered in or controlled by nationals of countries allegedly subsidizing their shi-

pyards, when such vessels call at US ports or the Buy America amendments to the Authorisations Bill (HR 2401) which provide that vessels with a home port in the US may not be repaired in foreign shipyards (other than in the case of voyage repairs). The Commission continues to monitor the effect of this legislation on the European shipbuilding industry.

Conditional National Treatment

The principle of national treatment is one of the pillars of liberalization of the world economy. It is a well established legal standard, used in international treaties and other multilateral instruments. OECD Member countries have declared that enterprises operating in their territory and country should be treated no less favourably than domestic enterprises in like situations, i.e they should be accorded 'national treatment'. The principle has also been incorporated in the GATT as applied to goods. Although within the OECD framework Member countries have gradually taken steps to extend their application of the national treatment principle by removing restrictions on foreign direct investment, the US has retained certain legislative provisions conditioning national treatment of foreign economic operators in different economic sectors. The Commission's services are now concerned about a growing tendency in the US to proliferate legislation conditioning the principle of national treatment and providing for the possibility of enhanced discrimination against European economic operators in the US. This legislation aims at non-US companies' participation in federally funded Research & Development (R&D) and related activities. It is embedded in a more general discussion in the US, focusing on:

- the role for foreign controlled companies in the US economy;
- the competitiveness of US controlled companies; and
- the question of asymmetric trade relations with third countries.

If this trend were to prevail, it would make foreign direct investment in the US considerably less attractive and have an impact on overall trade relations. The Commission is closely following these developments and is engaged in consultations with the US at SubCabinet level.

■ Towards a positive outcome:

Transport

Meeting in Washington on 5 October, EC Commissioner for Transport Matutes and American Transport Secretary Pena agreed to institutionalize biannual contacts at this level. In addition, a working group of senior officials will be established to examine all aspects of air transport which merit bilateral consultations.

The EC's new code of conduct governing computerized reservation systems (CRS) will be among the first subjects to be dealt with by the group. The new code, adopted by the Council on 29 October, provides i.a. that a company selling CRS must be legally separate from the parent air company (so-called legal dehosting). This creates problems mainly for the US carrier American Airlines (AA) which would have to adjust the status of its CRS, SABRE.

However, the code provides for an implementation period of up to 12 months and the Commission has repeatedly indicated that it will adopt a flexible approach to the application of the code and will hold consultations with AA in order to facilitate the adjustment of its structures.

Environment

Held in a very friendly and constructive atmosphere, the annual EC-US high level consultations on Environment took place in Washington from 13-15 October 1993. The discussions covered a wide range of environmental issues, including an EC proposal to launch a joint research project on environmental cost-benefit analysis.

The EC stressed the need to intensify the work within GATT on reconciliation of the trade and environment sectors. Rules governing this issue should be incorporated into the GATT and should be backed up by organizational measures, notably the creation of the GATT Committee on the Environment. This Committee could later be a part of the Multilateral Trade Organisation (MTO) and should deal with all problems relating to environment and trade. The US side received this suggestion favourably.

Commission for Sustainable Development

The conflict between the EC and the US on the Community's "full participation" in the UN Commission for Sustainable Development (CSD), a per-

manent body under ECOSOC, created in the wake of the Rio Conference, continues to move towards a final solution.

Agreement reached so far provides for the EC to participate, speak, and negotiate within the areas of its competence in both formal and informal meetings of the CSD and subsidiary organs. However, the US insistence on the absence of procedural rights for the Community remains under discussion.

Education

Having agreed in May 1993 to boost EC-US cooperation on education, a first joint initiative has now been launched aiming to improve mutual recognition of academic credit. The program includes increasing student and teaching staff mobility/joint curriculum development and intensive seminars. Commission Vice-President Ruberti and Education Secretary Riley announced the selection of consortia of higher education institutions which will participate in an exploratory phase of EC/US cooperative activities. Twenty three proposals have been chosen for support, each involving a cluster of institutions, about 120 on the EC side and about 80 on the US side. These "demonstration projects" cover a variety of topics which provide a strong focus of common interest and promise to bring balanced benefits for both sides. Topics include: comparative studies on immigration issues; ethnic identities and refugee policies; environmental microbiology; groundwater protection as a global environmental problem; technology and international management, agriculture and agricultural policies in the EC and the US; development of a graduate curriculum for the study of higher education and international marketing for SMEs (Small and Medium Enterprises).

Unitary tax

In the absence of a federal policy on unitary taxation and in violation of bilateral US taxation treaties, California and at least 11 other US states have introduced a system of unitary taxation for multinational companies operating within their states. The basic objective of the states' legislation was to overcome tax evasion through transfer pricing and thus to raise additional tax revenue.

Under unitary taxation no attempt is made to adjust transfer prices between affiliated companies. Instead, the overall income of the group of companies is assessed and a proportion determined as arising within the state according to certain factors (e.g. the level of turnover in the state compared with worldwide turnover).

The problems that the "worldwide" unitary method employed by California (and some other US States) have brought and the impact these were likely to have in the long term on international trade and investment, led the Member States of the European Community, as well as other major trading partners of the United States, to oppose it strongly. California's tax policy is also being challenged in the pending Supreme Court Case of Barclays Bank v. California.

Clearly, new legislation in California, introduced during Summer 1993, which modifies its unitary taxation law, would not have been introduced without this concerted international opposition. Already under the old law companies could opt for the so-called "water's edge" alternative, which taxes foreign subsidiaries as if they were independent businesses. The obligation of having to pay a fee and having to disclose certain company information, however, has been abolished. In the Commission's view, this new legislation does not fully resolve the issues raised by the Barclays case. The Commission was disappointed that the Solicitor General of the United States, in his brief to the Supreme Court, took the view that the problem lacked "substantial recurring importance" and therefore that the case did not need to be heard.

Nuclear Energy

Negotiations for a new EC-US nuclear cooperation agreement to replace the present 1960 agreement on its expiry on 31 December 1995 were continued in Brussels on 14-15 July and 28-29 October. During these meetings and the five preceding ones, basic agreement was reached in a number of important areas concerning industrial, commercial and safeguards matters. However, this is a complex agreement and the EC, given its excellent non-proliferation credentials, has considerable difficulties with the US position on applying some provisions of the US 1978 Nuclear Non-Proliferation Act, which are considered intrusive by the EC side, to certain fuel cycle operations. However, the importance of the Agreement to the EC, to the US and to worldwide nuclear trade is appreciated and both sides are seeking a positive outcome.

THE US AND THE REST OF THE WORLD



NAFTA

The North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico is expected to enter into force on 1 January 1994. Signed on 17

December 1992 and supplemented by three side agreements on labour, environment and import surges, it has become a major challenge for the Clinton Administration. The NAFTA implementing package was sent to Congress on 3 November 1993 under the Fast Track procedure and - after intense public debate - was passed by the House with a clear majority on 17 November 1993.

NAFTA will create a market of more than 360 million consumers. It aims at promoting economic growth and employment, through the elimination of barriers to trade and investment, the setting up of conditions of fair competition, including the protection of intellectual property rights.

The NAFTA side agreements on environment, labour cooperation and import surges aim at addressing the existing gap of competitiveness between the economies of the three parties and the subsequent risks of reallocation of resources in the NAFTA area.

The EC Commission welcomes and supports the completion of NAFTA in as far as it contributes positively to the multilateral trade system. It has reviewed the Agreement and considers that NAFTA will have a positive net effect on trade with the Community.

However, the Community has some concerns, in particular regarding textiles, that implementation of NAFTA may lead to loss of markets for the Community industry because of stricter rules of origin. It is also worried about the discriminatory treatment it will be subject to in the financial services, insurance and investment sectors. Also, in the context of Congressional consideration of the draft implementing bills of NAFTA, Senator Baucus proposed to attach an amendment to these bills renewing Super 301. Other amendments, including an amendment of the US countervailing anti-subsidy procedure, were also discussed.

The EC sent letters to Congress and the Administration on 27 October 1993 to express its opposition to both amendments which are inappropriate in the multilateral trade negotiations at this point in time.

The Community will be following closely the implementation of NAFTA and will ensure that it will not run counter to the results of the Uruguay Round negotiations.

■ US-Japan Trade Relations

Since 10 July 1993, US-Japan bilateral trade talks have come within the "Framework for a New Economic Partnership". The Framework agreement institutionalises a complex, multi-layer bilateral consultation mechanism for a two-year period, including meetings

at heads of government level. It provides for commitments on macro-economic and trade matters, which aim to resolve external imbalances in the two countries and for a common agenda of cooperation on issues of global dimension, in particular on environment, technology, human resources and on population growth.

Although commitment to an open multilateral trade system was reaffirmed, the US reserves the right to use its trade laws, including unilateral action against Japan. Japan, in turn, reserves the right to break off discussions in such circumstances.

At present, Japan has been identified under Title VII of the US Trade Act as a discriminatory country for its procurement policy in construction, architectural and engineering services. However, in the light of recent indications of a greater Japanese willingness to open up its procurement market, the US decided to postpone the 1 November 1993 deadline for possible unilateral sanctions against Japan until 20 January 1994.

The EC is following this subject closely so that the new US-Japan trade framework does not lead to discriminatory treatment for third countries, in particular to some form of managed trade. At this stage, the US-Japan Joint Statement is not, in principle, a matter of concern for the EC. However, the EC will stay vigilant on whether practice conforms with principle.

■ APEC

In his recent testimony before the Senate Foreign Relations Committee, US Secretary of State Warren Christopher stated that no area of the world was more important for American interests than the Pacific Region. In this context there is considerable concern that the growing US interest in this region would be to the detriment of the Community.

On 18-19 November, APEC's annual Ministerial meeting, followed by its first Summit meeting on 20 November, took place in Seattle. The meeting provided an important political impetus, despite lingering political tensions and divergences of views among key APEC members on a number of economic issues.

As a first step towards a more policy-making organization, the APEC Ministerial adopted a framework for trade and investment designed to facilitate the flow of goods, services, capital and technology throughout the region. An APEC Committee on Trade and Investment was set up within the framework. The Ministerial also welcomed Mexico and Papua New Guinea as new members and agreed Chile's membership as from 1994.

The European Community has welcomed the work of APEC, provided that it does not detract from the GATT-based multilateral trade system. It has strong economic interests in the area and its trade with East Asia and Australasia is growing rapidly (Community exports to and imports from the area in the years 1986-1991 increased by 67% and 74% respectively).

The Community has therefore contacted the US as current APEC chairman with a view to joining in a constructive dialogue with APEC, both at ministerial level and at the working level in the cooperation groups established by APEC. This request, however, has not been received favourably. The US and Australia appear to be among those states least disposed to enter into dialogue with the EC. The laying down of very restrictive rules about non-APEC participation in the working groups and the absence of any formal reaction to the EC's request clearly demonstrate

that the Community's message has not yet got through. It is important, therefore, that the Community perseveres in showing its willingness to dialogue with APEC. The US reluctance to have APEC enter into dialogue with the EC is in contrast with President Clinton's very positive statement in his Seattle speech about the importance of the Community for economic growth and political stability. In this connection the US should be aware that the growing trend towards globalization and interdependence as well as the significance of the Community's market clearly favour cooperation and dialogue. The European Union maintains a constructive dialogue with the US on matters of common interest (PECOs, Russia and NIS, European enlargement) and thus has a legitimate expectation to be informed in a similar manner.

ANNEXES

Table 1: EC-US trade

(\$bn)	US Trade with the World						US Trade with the EC				
	1989	1990	1991	1992			1989	1990	1991	1992	%
Exports	363.8	393.6	421.7	448.2		86.4	98.1	103.1	102.8	23	
Imports	473.2	495.3	487.1	532.5		85.3	91.9	86.2	94.0	18	
Balance	-109.4	-101.7	-65.4	-84.3		+1.1	+6.3	+17.0	+8.8		

Source: US Department of Commerce

(\$bn)	EC Trade with the World (Extra EUR 12)						EC Trade with the US (Extra EUR 12)				
	1989	1990	1991	1992			1989	1990	1991	1992	%
Exports	455.0	534.6	524.8	565.5		86.0	97.5	88.2	95.9	17	
Imports	492.2	589.2	612.1	633.1		92.2	108.5	113.9	112.6	18	
Balance	-37.2	-55.6	-88.3	-67.1		-6.2	-11.0	-25.7	-16.7		

Source: EUROSTAT

Table 2: EC-US foreign direct investment links

Foreign Direct Investment in the US (Stock, valued at historical-cost basis)			
	Total (\$bn)	EC (\$bn)	EC as % of Total
1987	263.4	165.4	61
1988	314.8	193.9	59
1989	368.9	216.1	58
1990*	394.9	220.9	56
1991*	414.4	223.6	54
1992	419.5	219.1	52

US Direct Investment Abroad			
	Total (\$bn)	EC (\$bn)	EC as % of Total
1987	314.3	124.0	40
1988	335.9	131.1	39
1989	372.4	149.5	40
1990*	427.0	179.1	42
1991*	461.0	197.7	43
1992	486.7	200.5	41

Source: Survey of Current Business, July 1993, US Department of Commerce.