

DECEMBER 94

# PROGRESS REPORT ON EU-US RELATIONS

## CONTENTS

<b>A WORD ABOUT THE PROGRESS REPORT</b>	<b>2</b>
<b>THE EP'S ACTIVITIES IN THE FIELD OF EU-US RELATIONS</b>	<b>2</b>
<b>FOLLOW-UP TO BERLIN SUMMIT</b>	<b>3</b>
<b>EU-US POLITICAL RELATIONS; FOREIGN AND SECURITY POLICY</b>	<b>3</b>
Recent Developments: Reaffirming Common Political Goals	3
- UN General Assembly - Bi-Annual Foreign Ministers' Meeting - Middle East Peace Process: The EU and the US Support the Israel-Jordan Peace Treaty	4
Views on EU-US Political and Security Relations	4
- Political Dialogue - Security Relations - EU and NATO Enlargement	4
<b>EU-US TRADE AND ECONOMIC RELATIONS</b>	<b>6</b>
High Level Discussions:	6
- EU-US Sub-Cabinet Meeting, Washington, 28-29 September	
- Quad Meeting, Los Angeles, 9-11 September - Financial Services High Levels, Washington, 2 November - Annual Environment High Levels, Brussels, 14-16 November - EU-US Information Society Dialogue, Washington, 28-29 November	
Ratification and Implementation of the Uruguay Round - the States of Play:	8
- ... in the EU - ... and in the US	9
Spotlight:	9
- Successful Cooperation on Education - Regulatory Cooperation: Opportunity and Challenge for Lawmakers on Both Sides of the Atlantic	10
GATT Panels:	10
- Tobacco - US Car taxes - Lead & Bismuth Steel - Reformulated Gasoline	11
Commission Sponsored Seminars and Studies on EU-US Relations	12
Update on Recent Developments:	12
- Car Labelling in the US - Competition Agreement Declared Void by European Court of Justice	
- Conditional National Treatment - ETSI Dispute Close to Resolution - EU Enlargement - Article XXIV:6	
- European Energy Charter - Export Controls - FDA/DG III Talks - Jobs and Growth Activities - Leghold Traps - Maritime Transport - Reclassification of Multi-Purpose Vehicles: the Unexpected Ramifications of an Old Story (Classification of Minivans) - Third Round of MRA Negotiations - Section 301	
Investigation against EU Bananas Import Regime - Shipbuilding	17
New Technological Challenges:	17
- The Information Society - Recent Developments	
Trade and Economic Relations with Third Countries:	18
- Japan - China - APEC	

## A WORD ABOUT THE PROGRESS REPORT

The Progress Report addresses all those interested in the EU's external relations and wishing to be informed on EU-US relations in more detail. It provides information on some of the issues currently under discussion between the EU and the US, denoting progress achieved and obstacles encountered. It has no claim to completeness nor does the fact that some developments are reported about while others are not constitute a judgement as to their importance. More general information on the transatlantic relationship and copies of the Transatlantic Declaration (a 1990 joint declaration, providing basis and framework for the ongoing EU-US dialogue) are available on request. Of particular interest are the European Commission's annual "Report on US Barriers to Trade and Investment", the annual "General Report on the Activities of the Communities" and the monthly "Bulletin of the European Union". These last two publications include chapters on EU-US relations, with the Bulletin focusing on the ongoing dialogue at the highest political level. The Progress Reports are

jointly drawn up by the services of DG I (Directorate-General for External Economic Relations), DG IA (Directorate-General for External Political Relations), DG X (Directorate-General for Information, Communication, Culture and Audiovisual Media) and Eurostat (Statistical Office of the European Union). For further information, please contact the Secretariat of Unit I.B.1 (Relations with the US) (telephone 32-2-299.22.41), which can provide further guidance to services responsible for specific subjects. Editor with overall responsibility for this report is Ms A Schomaker (telephone 32-2-299.01.73). Alternatively, the addresses of our information services in the US are listed on the front page. Please note that the San Francisco office has been closed and requests should therefore be directed to our Delegations in Washington and New York.

This issue of the Progress Report covers developments between mid-July and the beginning of December.

## THE EP'S ACTIVITIES IN THE FIELD OF EU-US RELATIONS

As its predecessor had done, the newly elected European Parliament (EP) which held its inaugural session in July showed keen interest in EU-US relations and a desire to be closely involved in the transatlantic dialogue. Various parliamentary committees discussed EU-US relations in general or specific aspects of them. A particularly active role was for example taken by the EP's "REX -Committee" (Committee for External Economic Relations) which i.a. discussed means for improving the transatlantic dialogue and deepening economic ties with Director General for External Economic Relations Horst G. Krenzler in September. In addition, this Committee, as did the Plenary, actively monitored the EU's Uruguay Round ratification and implementation meeting with Sir Leon Brittan, Commissioner for External Economic Relations, on numerous occasions. The Committee on Foreign Affairs and Security i.a. met in special session in mid-November for an exchange of views with Commissioner for External Political Relations van den Broek on the implications for the Atlantic alliance of the US decision no longer to participate in the control-of-arms-embargo on Bosnia-Herzegovina. The same topic was then also subject of an intensive plenary debate. Two reports are in the process of being drafted and were discussed by the responsible Committees: one by the Rex-Committee on the EU-US competition agreement (see separate report) and one by the Committee on Legal Affairs and Citizens Rights on the EU-US Government Procurement Agreement (see

Progress Report of July 1994). Individual representatives of both the Committees mentioned and others also addressed a whole series of questions to the Commission over the last months, displaying an interest in a range of specific, trade related issues such as US import taxes on canned tomatoes or taxes on luxury cars.

Largely because of organisational problems surrounding the US mid-term elections, the Parliament's Delegation for Relations with the United States twice had to postpone its 43rd interparliamentary meeting with members of the US Congress which is now scheduled for March 1995. Nevertheless, the Delegation met with high-ranking Commission representatives directly after the summer break for a first exchange of views and later, in November, with US Ambassador to the European Union Stuart Eizenstat to discuss prospects for transatlantic relations in the light of the mid-term election results.

In October, the EU/US Audio-visual Roundtable, an initiative officially launched by Alan Donnelly (Chairman of the EP's Delegation for Relations with the US) at the 42nd Interparliamentary Meeting in Athens in January and co-chaired by himself and Mary Banotti (Vice-Chairwoman of the EP's Committee on Culture, Youth, Education and the Media) held another meeting in Brussels. The Roundtable brings together European and American film industry representatives and politicians for informal discussions of issues of common concern and possible areas of practical co-operation.

Finally, the EP received high-ranking delegations of the US Council of State Governments (CSG) and the National Conference of State Legislators (NCSL) for dis-

cussions and information meetings in which the Commission also participated.

## FOLLOW-UP TO BERLIN SUMMIT

The EU-US Summit in Berlin on 11 July decided to set up three temporary groups of experts who are to report to the next Summit in 1995 (see Progress Report of July 1994). With a view to improving the dialogue within the existing mechanisms of the 1990 Transatlantic Declaration and making the Summit meeting more operational and focused, they are to prepare the discussion of three issues: 1) the definition of ways and means to strengthen democracy and economic cooperation with and between Central and Eastern European countries through combined EU-US actions; 2) the definition of ways and means to improve joint efforts in EU-US international relations, in particular in the field of Common Foreign and Security Policy and 3) EU-US cooperation in fighting organised crime and drug trafficking.

The Presidents of the European Commission and the Council and the US President have each appointed a representative charged with the preparation and overview of the work of the three groups. These three representatives met in Washington in October, when agreement was reached on the composition of each of the expert groups and broad understanding was achieved concerning the mandate of the groups. Each group is to decide its own work programme. First meetings have taken place and the results of the groups' discussions will be reported to the next EU-US Summit, to be held under the French Presidency in the first half of 1995.

## EU-US POLITICAL RELATIONS; FOREIGN AND SECURITY POLICY

### Recent Developments: Reaffirming Common Political Goals

In the post-Cold War world the EU and the US face a new set of international political challenges which, although not as threatening as the nuclear nightmare of the Cold War decades, demand determined efforts on both sides of the Atlantic. Despite a number of divergencies in the transatlantic relationship towards the end of the year, centering largely on how to find a peaceful solution to the conflict in Bosnia, the similarity of many EU and US interests was confirmed over recent months, not least at the United Nations General Assembly.

### UN General Assembly

The general debate during the first week of the 49th UN General Assembly in September provided a good opportunity to compare EU and US political priorities. The speeches delivered by EU Council President and German Foreign Minister Klaus Kinkel and US President Bill Clinton reflected the extent to which EU and US views converge on global political issues. EU Council President Kinkel stressed in his speech that transatlantic relations remained a cornerstone of European policy, and he explained that the EU-US July

Summit had confirmed the resolve on both sides further to strengthen transatlantic links. He stressed that the EU approach to global affairs was to seek cooperation based on partnerships with other regions of the world in order to advance and safeguard world peace and development. With respect to security cooperation in general, the EU Council President emphasised the importance of a network of mutually supporting institutions, including the EU, WEU, NATO and the CSCE, all working closely together with the UN.

An EU Memorandum prepared for distribution at the General Assembly further highlighted the importance of the EU-US cooperative framework (the Transatlantic Declaration of November 1990) and again underlined the crucial contribution made by the US to ensuring a stable Europe. The comprehensive nature of the CSCE process, bringing together Europe with the US and Canada, contributed to peace and stability in Europe. The need to promote global cooperative approaches was also emphasised by President Clinton in his speech. He underlined that it was a global task to secure peace after the end of the Cold War and that the aim should be to build a more democratic and prosperous world. Old and new threats and challenges had to be

addressed by the international community in cooperation. Much like EU Council President Kinkel, President Clinton identified non-proliferation of nuclear and conventional arms as one of the key challenges in this respect. More specifically, President Clinton suggested a series of concrete steps which the international community could take, such as extending the Non-Proliferation Treaty (NPT), reducing the number of weapons of mass destruction, agreeing on a test ban convention, and moving to eliminate the more than 80 million land mines which daily threaten the lives of people all over the world. All of these issues are common EU-US priorities and the US proposal on land mines echoes concerns raised by the EU during last year's General Assembly.

In terms of the UN itself, President Clinton stressed the need for UN reform in order to improve its ability to respond to increasing demands made on it. In a more narrow European context, President Clinton highlighted NATO's Partnership for Peace scheme which he considered a means to help Europe become a more unified continent of democratic nations.

#### **Bi-Annual Foreign Ministers' Meeting**

Important exchanges on these common political concerns also took place when EU Foreign Ministers met with US Secretary of State Warren Christopher in the margins of the UN General Assembly. It was the first time that the then four candidate countries Austria, Norway, Sweden and Finland were represented in a high level EU-US consultation, at which Commissioner for External Political Relations Hans van den Broek participated for the Commission. A wide spectrum of international issues was discussed at the meeting, including the transition process in Central and Eastern Europe, the latest US-Russian Summit and developments in Haiti.

#### **Middle East Peace Process: The EU and the US Support the Israel-Jordan Peace Treaty**

The transatlantic political dialogue also often focuses on the Middle East region which is of vital interest to both the EU and the US. Both partners actively support the peace process which has gained momentum in recent years, and the Israel-Jordan Peace Treaty was yet another political breakthrough in the efforts to advance stability and cooperation in the region. The signing of the treaty took place on 26 October in Arava in the presence of US President Bill Clinton, EU Council President Klaus Kinkel and Commission President Jacques Delors together with Commissioner for External Political Relations Hans van den Broek. The German Presidency congratulated Israel and Jordan on behalf of the EU, expressing its hope that this successful conclusion would lead to progress in other negotiations in the framework of the Middle-East peace process and reaffirming EU readiness to contribute to the success with political and material support.

## **Views on EU-US Political and Security**

### **Relations**

Transatlantic relations have not only been the subject of formal meetings between the EU and the US over the past months. After the Berlin Summit there has been an intense discussion of future developments, involving a substantial number of official statements and academic exchanges of views on both sides of the Atlantic. The discussion has developed around three main themes: political dialogue as such, security relations in general, and EU and NATO enlargement in particular.

### **Political Dialogue**

The Berlin Summit confirmed the view, shared by both EU and US leaders, that there is at present no need for new transatlantic structures and that the political dialogue can be developed within the existing framework. This point was also made by External Political Relations Commissioner Hans van den Broek in a presentation at the Clingendael Institute in The Hague on 15 September. The Commissioner stated that interdependence in the security field remained at the heart of transatlantic relations. A precondition for the EU to become the desired strong partner for the US was the development of an effective Common Foreign and Security Policy. He emphasised that as far as future relations were concerned, there was at present no need for new structures and that energies should be focused on strengthening the existing cooperation framework based on the Transatlantic Declaration. In his view, a pragmatic approach to developing relations promised to yield the best results by using existing mechanisms as fully and effectively as possible. Strong political leadership on both sides of the Atlantic would be needed to achieve the ultimate goal of a new global partnership.

### **Security Relations**

As the Union develops its Common Foreign and Security Policy and increases its contribution to European security, this aspect of EU-US relations will grow more and more important. Addressing the 16th World Congress of the International Political Science Association in Berlin on 23 August, Günther Burghardt, Director General for External Political Relations of the European Commission, spoke about the perspectives and contents of a new Europe after the end of the Cold War which, he argued, by no means implies the end of security concerns for Europe. He called for new reflections to be made on security issues in which the EU had a key role to play. In this context he said that EU foreign policy interests and priorities included the strengthening of the transatlantic relationship by developing a genuine European Security and Defence Identity and maintaining close ties with the US.

The growing importance of the European Union in security affairs was also acknowledged by President Clinton in a letter to German Chancellor Kohl on the

occasion of the farewell ceremonies of the US troops in Berlin on 8 September. President Clinton emphasised the important role of the EU together with other institutions in producing the political and economic conditions in which free institutions could thrive. He also underlined that the EU and the US together must give new meaning to the ideal that inspired the architects of European integration: an undivided Europe. Chancellor Kohl underlined during a conference on future German-US relations on the following day the necessity to secure the future together with the US. He reiterated that Europe needed a strong America and America needed a strong Europe.

The commonality of EU and US security interests was also stressed by US NATO Ambassador Robert Hunter, who spoke to the Strategic Studies Conference in Knokke on 15 September about the past and present US role in Europe. He confirmed the presence of the US in Europe as in its own fundamental national interest. In this light he established a link between NATO and the EU, stating that the evolution of European integration had been a result of the security guarantees offered by NATO.

Commissioner Hans van den Broek placed the European security situation in a more global post Cold War context in a speech on 18 October in Paris on EU-Japan relations. The Commissioner stated that Europe and Japan, together with North America and South East Asia, were the poles of a new quadripolar international economic system. Both the EU and Japan, being in the process of defining new foreign and security policy strategies, had not yet found their own way to transform economic strength into commensurate political influence. In terms of European security, Commissioner van den Broek argued that in order to take full advantage of the emerging European Security and Defence Identity, a new relationship should be worked out between NATO, the WEU and the EU.

### **EU and NATO Enlargement**

The discussion on transatlantic security relations is closely linked to the question of EU and NATO enlargement to the East, which has come to dominate much of the debate over the past months. EU and US leaders are committed to integrating Central European countries in order to meet their security concerns. Commissioner Hans van den Broek reiterated the commitment of the EU at the Annual Conference of European and American Journalists in Ireland on 17-19 November which dealt with "New dimensions in Transatlantic Relations." The Commissioner stated that existing arrangements such as the North Atlantic Cooperation Council, the Partnership for Peace programme, the CSCE, and the Council of Europe are not sufficient to meet the security concerns in Central Europe. This is why the EU decision to embrace the association and subsequently membership for these countries was so important.

This approach is strongly supported by the US. US Ambassador to the EU Stuart Eizenstat emphasised this

point during the above conference, stating that it was in the US national security interest to build a strong and united Europe. He argued that a strong Union strengthened the democratic impulse of Europe as already demonstrated in the context of previous enlargements. Integration of the East was also one of the core issues identified by John Kornblum, US Principal Deputy Assistant Secretary of State, who delivered an address to the US Mission to NATO's 10th Annual Strategic Studies Conference on the Future of Transatlantic Relations. Mr Kornblum argued that cooperation within Europe and between the US and Europe should be extended to all states playing a role in European security. Consequently, institutions such as NATO and the EU should adapt themselves to the new political environment by expanding their role accordingly.

This overall European perspective was set out again by the new Secretary General of NATO Willy Claes during the special meeting of the North Atlantic Council in Ministerial session in New York on 29 September. He declared that transatlantic solidarity and security partnership with the US and Canada would provide security and stability to Europe as a whole. Achieving security and stability in Central Europe was the greatest challenge, in which the EU had a major role to play. Both the EU and the US, he said, had a vested interest in making European and Atlantic institutions mutually reinforcing.

Such mutual interest was also highlighted by US Ambassador to France Pamela Harriman who underlined in a speech to the 'Friends of the French Republic' in Paris that partnership with Europe was crucial to American foreign policy. She explained that the Clinton Administration was convinced that the challenges Europe now faced, and would face in the future, called for the Alliance to work together even more closely than during the Cold War. The US had consistently encouraged steps towards European unity from the beginning, and she emphasised that democracy-building in Central and Eastern Europe and Russia was the most important common task for the EU and the US to undertake in cooperation.

John Kornblum lent support to this view in an address to the 40th Assembly of the Atlantic Treaty Association at The Hague on 26 October, where he described the American vision of Europe as being based on NATO, and the EU as the "organic embodiment" of Western cooperation. He suggested that US national security in this part of the world could best be guaranteed by the pursuit of several policy tracks simultaneously. The first track was already provided by integrated organisations such as NATO, WEU and the EU. He argued that securing peace in a wider sense would require further integration of the Euro-Atlantic world, including Central and Eastern Europe.

### ■ High Level Discussions:

#### **EU-US Sub-Cabinet Meeting, Washington, 28-29 September**

On 29 September the third Sub-Cabinet level meeting with the Clinton Administration took place in Washington. Sub-Cabinets are bi-annual meetings at the highest administrative level which actively review the transatlantic dialogue and discuss and coordinate medium and long term policy issues. Chaired on the EU side by Director General for External Economic Relations Horst G. Krenzler and on the US side by Under-secretary for Economic Affairs Joan Spero, the 29 September meeting was marked by its open atmosphere, allowing both sides to obtain valid political information and discuss new concepts and approaches on a wide range of issues.

On substance, the Sub-Cabinet first discussed developments in telecommunications and information technologies and their implications for international economic policy, launching the bilateral EU-US Information Society dialogue\*. Considerable time was devoted to an exchange of views on the so-called "new trade issues", ie the relationship between trade and environmental policies, trade and social issues, and trade and competition. While not always equally advanced, thinking on both sides of the Atlantic is largely developing along the same lines. On trade and environment the ongoing discussions in the relevant WTO preparatory committee were reviewed and the European Commission used the opportunity to explain its thinking on how to deal with unilateral trade measures taken pursuant to multilateral environmental agreements. The EU and the US continued their bilateral talks on this issue in the framework of the annual EU-US environmental high levels in November\*. As regards trade and social issues in particular, the US - in the face of pressure from developing countries - appears to have toned down its previously rather aggressive approach and has thus come closer to the EU's position. Both now also agree that the ILO's (International Labour Organisation) work should be used as a source of expertise and that the ILO and the WTO need to cooperate closely on these matters.

The discussions on trade and competition focused on the re-establishment of the bilateral competition agreement, recently declared void by the European Court of Justice\*, but also provided for a broad exchange of ideas on future developments in the field. Bilateral investment concerns constituted another main point of the meeting and one on which no real progress could be achieved. The Commission reiterated its concern about a number of provisions, contained in draft US legislation, which seek to tie national treatment of foreign enterprises to the fulfilment of certain condi-

tions. As they had done in previous Sub-Cabinet discussions on the issue, the EU representatives declared their willingness to develop together with the US common eligibility criteria for research and development issues\*. However, the US side explained that for various reasons it was yet not in a position to enter into such a process and for its part pointed to a number of concerns raised by Member States' or EU legislation.

A substantive discussion took place on post-Uruguay Round trade liberalisation, focusing in particular on standards and mutual recognition issues. Both sides achieved important clarification of the respective positions and agreed that the problems persisting in some sectors only should not hold up the process in general. They thus decided that the third round of negotiations for the conclusion of a mutual recognition agreement beginning on 29 November\* be held on the basis of a broad and comprehensive agenda.

The Sub-Cabinet also turned its attention to the renewal of existing multilateral economic institutions. The discussion at this early stage of policy formation proved beneficial to both sides and it was agreed to continue the dialogue at the next Sub-Cabinet meeting as well as in other fora.

Finally, the Sub-Cabinet reviewed the relationships with a number of third countries: on Japan the US-Japan framework talks and the deregulation process were reviewed\* and with regard to APEC the Bogor Summit and the Eminent Persons' Group Report were discussed\*. As to the countries of Central and Eastern Europe, the EU side explained its strategy for their accession to the EU; on Russia a general exchange of views took place with both sides reaffirming their support for Russia's WTO accession. Close EU-US cooperation with a view to supporting economic recovery in South Africa was also agreed.

For the first time, the Sub-Cabinet was preceded by a preparatory meeting allowing for in-depth discussion on a number of issues of a more technical nature, most importantly regulatory cooperation\* and "early warning". Under the early warning heading each side flagged a number of issues holding in its view the potential of developing into trade disputes.

\* See separate sections on these issues in this edition of the Progress Report.

#### **Quad Meeting, Los Angeles, 9-11 September**

Meeting for the first time since the formal conclusion of the Uruguay Round negotiations in Marrakech in April, EU Commissioner for External Economic Relations Sir Leon Brittan and United States Trade Representative (USTR) Kantor came together with Ministers from Canada and Japan in Los Angeles on 9-11 September to discuss a wide range of trade issues. Recalling the

constructive role the Quad had played in moving the Uruguay Round talks forward, the meeting was held in a very positive atmosphere, devoting time to both operational questions and brainstorming. All participants accorded the highest priority to the process of ratification and implementation of the Uruguay Round and bringing the World Trade Organization into operation on 1 January 1995. This priority was clearly followed, in delegates' views, by the need to conclude the negotiations on the "unfinished business" from the Uruguay Round, with special emphasis on financial services. Here, Sir Leon reported, the Quad had achieved a "rapprochement" of views, which should help to persuade mainly South-East Asian countries to improve their offers for further liberalisation of the sector.

As a follow-up to the US Open Markets 2000 initiative at the Naples G-7 Summit in July, all sides shared the desire to continue the process of overall liberalisation. A number of sectors in which further work between Quad members would be beneficial in this respect were discussed, among them telecommunications and high technology, regulatory reform, mutual recognition of standards and investment.

#### **Financial Services High Levels, Washington, 2 November**

A third meeting in the series of high level consultations on financial services was held in Washington on 2 November 1994 between the Commission and the US Treasury and other agencies. The Commission delegation was headed by Director General for the Internal Market and Financial Services John Mogg; the US side was led by Jeff Shafer, Assistant Secretary of the Treasury for International Affairs. At the meeting, the US confirmed their intention to participate at the appropriate level in the round of bilateral negotiations in Geneva at the end of November. There had been indications that the US would not conduct negotiations in Geneva, thus undermining both the successful relaunching of the negotiating process by the Interim Group on Financial Services and the efforts of other participants, including the EU, to secure better commitments in financial services.

The US briefed the EU on the negotiations with Japan on financial services and in particular on the improved access for foreign managers to Japanese public and private pension fund management. On insurance the US confirmed that they were examining how much of an agreement could be dovetailed into GATS.

#### **Annual Environment High Levels, Brussels, 14-16 November**

A high degree of cooperation on environmental issues was achieved at the recent annual high level consultations between the European Commission and the United States Government in Brussels on 14-16 November. Marius Enthoven, Director General of DG XI (Directorate-General for Environment, Nuclear Safety and Civil Protection) for the EU, and Eileen Claussen, Special Assistant to the President and

Director of Global Environmental Affairs for the US, chaired the conference. Items on the agenda included the environmental state of play with regard to climate change, regulatory cooperation, UN issues, trade and environment, hazardous waste and the CO<sub>2</sub>/energy tax.

Despite the full agenda, dynamic exchange ensured that much headway was made on every issue. The discussions on the important subject of climate change clarified the position of both parties in the run-up to the first Conference of the Parties to the Climate Change Convention, to be held in Berlin in 1995. Fruitful academic exchange took place concerning the concept of Biosafety (the security implications of environmental protection) and the Commission's recent work on a new development model (illustrating the economic impact of the CO<sub>2</sub>/energy tax on specific sectors).

In addition to these areas, technical group meetings took place, in which biotechnology, chemical products and atmospheric issues were discussed in detail. It was agreed by both sides to exchange specific information with respect to risk assessments and decisions in the field of biotechnology, in particular using information system linkages; and to continue close contact in coordinating respective selections of priority substances for risk assessments of chemicals in the OECD framework (Summary Information Data Set programme). The next meetings of the technical groups on biotechnology and the environment and on chemicals will be held in Ispra in the summer of 1995.

There was consensus on many of the issues covered; however, both parties also agreed that efforts must be redoubled in order to achieve closer EU-US coordination in the approach to global environmental protection in international fora.

#### **EU-US Information Society Dialogue, Washington, 28-29 November**

The first meeting of the EU-US Dialogue, endorsed by the February Sub-Cabinet, took place 28-29 November, and was marked by a very good spirit of cooperation. Director General for Telecommunications, Information Market and Exploitation of Research Carpentier led for the Commission, with the US represented by Ambassador McCann (State Department), Assistant Secretary Irving (Commerce Department) and Chairman Hundt (Federal Communications Commission).

The recent agreement by the Council to liberalise telecom infrastructures by 1998 certainly helped set the good tone for all of the discussions, reassuring both sides that relatively more harmonious trade relations may be possible for the coming years. New proposals for telecoms reform in the US are expected under the newly elected Congress.

The discussions covered a very wide range of issues, including mobile telecoms, intellectual property rights, satellite communications, universal service and standardisation. On the last three points, follow-up meetings between regulators are planned to consider fur-

ther enhancements to transatlantic cooperation. A next round of plenary meetings is expected in Spring 1995.

## ■ Ratification and Implementation of the Uruguay Round - the State of Play

### ..... in the EU

After a number of mainly procedural internal delays, the EU is now set to become a WTO member by 1 January 1995. In response to a Commission request in April, the European Court of Justice issued on 15 November its opinion on the division of competences between the EU and its Member States with regard to the formal conclusion of the Uruguay Round Agreements.

On substance, the Court confirmed that trade in goods (i.e. including trade in nuclear goods and in coal and steel products as covered by the Treaty establishing the European Coal and Steel Community) falls completely within the exclusive competence of the EU. In the area of services (GATS) and intellectual property (TRIPS), however, the EU partly shares competence with its Member States.

More specifically with respect to services, the Court stated that the cross-border provision of services, which does not involve physical movement of persons, also falls within the ambit of the common commercial policy and is thus of the exclusive competence of the Community. This includes, for example, telecommunications, provision of financial and insurance services by electronic means across frontiers, audio-visual services, etc.

Conversely, the Court established that the other modes of supply of services which imply a movement of persons or an establishment within the EU fall within the concurrent competence of the EU and its Member States. However, here as well the EU has exclusive competence if internal measures either have created an express power to negotiate with third states or have achieved a harmonisation of the rules concerning access to the internal market.

In the field of intellectual property, the Court accorded the EU exclusive competence only with regard to restrictive measures taken at the border to combat trade in counterfeited goods. However, as was the case for services, while the EU and the Member States have concurrent competence for the TRIPS, the EU acquires exclusive competence to the extent that it has taken internal harmonisation measures.

The judgement effectively opens the way to EU ratification of the Uruguay Round by putting an end to the dispute between the European Commission and Member States, which had hitherto stalled progress in the ratification procedure. With this competence question out of the way, the EU is set formally to ratify the Uruguay Round at the 19-20 December session of the General Affairs Council, following the European Parliament's vote on 14 December. A similar schedule applies to

the passage of the implementing legislation package: the EP will vote on 14 December, clearing the way for Council adoption on 19-20 December.

The fact that the EU and its Member States share competence over some issues means in practical terms that on top of the EU ratification, ratification by each Member State is necessary. Several Member States, amongst them the UK, Germany and Ireland, had by the beginning of December already completed their internal procedures. As regards the others and the three new Member States, they all appear set to have concluded their internal procedures before Christmas. The Member States also have to adopt implementing legislation with regard to a number of intellectual property provisions. However, as Art. 65.1 of the TRIPS Agreement stipulates, this legislation only needs to be in place by 1 January 1996.

### .....and the US

In the US, after considerable internal debate and intensive lobbying of both GATT opponents and supporters, the Congress passed the Uruguay Round implementing bill with a surprisingly comfortable majority on 29 November (House) and 1 December (Senate).

The implementation process had suffered a setback in late September when it was blocked by Senator Hollings (D-SC) and subsequently delayed in the House as well. Under considerable pressure from the White House, a last minute compromise was reached between Congressional leaders and the Clinton Administration, according to which the 103rd Congress would hold a special "lame duck" session after the mid-term elections.

Even before the defeat of the Democrats in the November mid-term elections, there had been some indications that gaining the necessary majority in the Senate might be difficult as under its "pay-as-you-go" rule the Senate requires that any revenue cuts (such as those caused by the Uruguay Round's tariff reductions) must be fully funded from other sources for 10 years. Sixty of the Senate's 100 votes are necessary to waive this requirement. Support for this waiver was somewhat faltering until Senator and future Majority Leader Bob Dole (R-Ks) struck a deal with the US Administration, under which it agreed to support a bill to be introduced in 1995 to set up a WTO Dispute Settlement Review Commission and a mechanism by which Congress could initiate action for withdrawal from the WTO if the dispute settlement panels were found to violate US interests. Senator Dole subsequently joined President Clinton in urging his fellow senators to support the Uruguay Round, thus causing the momentum for a shift in favour of passage.

In a clearly bipartisan decision, the Senate then approved the budget waiver by 68:32 votes and passed the implementing legislation as such by 76:24, and in doing so followed the affirmative vote of 288:146 in the House.



## Spotlight:

### Successful Cooperation on Education

Both the EU and US are facing major economic and social challenges in stimulating the creation of and preparation for high quality jobs. Having a knowledgeable and skilled workforce responsive to advancing technologies; stimulating quality job opportunities in economically deprived urban and rural areas and among minorities and women; and providing quality education and training to all segments of the population are just some of the issues to be addressed on both sides of the Atlantic.

In this context two joint EU-US conferences have taken place so far, allowing participants from both sides of the Atlantic to share their experiences and compare policy approaches and priorities. The first, held in 1992, focused on partnerships between schools and industry for quality education. The second conference took place in San Diego from 2-4 November. Hosted by the US Department of Education and organised in collaboration with the European Commission's Task Force on Human Resources (soon to become DG XXII) the conference addressed "New Visions: Education and Training for an Innovative Workforce". It brought together a wide range of experts from the EU and the US concerned with the education and training of a high standard workforce. The importance of local leadership in the workforce development, the need to improve the status of vocational and technical education; the requirement of ethnic inclusivity of education and the special training needs of small and medium-sized enterprises provided the focal points of the discussions. The conference was followed by a meeting of the EU-US working group on education and training in Washington on 7 November in which past activities under the two year "exploratory cooperation" were reviewed and possible new forms of cooperation were sketched out.

The launching of the exploratory cooperation in the area of higher education had been announced by Commissioner Ruberti (Commissioner for Science, Research and Development; Joint Research Centre, Human Resources, Education, Training and Youth) and Secretary for Education Riley in 1993. Within the short time span of three months, 23 joint EU/US projects involving some 200 faculties on both sides of the ocean were selected from over 240 proposals in five academic areas, including the environment and natural sciences. Preliminary reviews of these projects indicate that this innovative form of multilateral cooperation, each involving partners in a number of European countries and states of the Union, is especially useful in encouraging pedagogic innovation in multi-disciplinary studies in areas where the frontiers of knowledge are advancing, and especially advantageous to regional institutions less used to international collaboration. Although it is too early yet for definitive data, the Commission estimates that this academic year some 250 European students will travel to partner institutions

in the US and a similar number of American students will come to Europe. The underlying philosophy is that those students should integrate themselves both academically and culturally in the normal life of the host institutions, undertaking intensive language preparation where necessary and benefiting from full academic recognition for the study period in the overseas establishment. At least as important as student mobility is the construction of networks which pursue a variety of innovative pedagogic means to achieve the aim of quality improvement.

Encouraged by the results of the exploratory cooperation and in order to put this experimental action on a more secure legal basis, the Commission has, at the initiative of Commissioner Ruberti, sent a formal request to the Council in September asking its approval to grant a mandate to draft an agreement with the US in the area of education and training.

The EU Council of Ministers on 21 November adopted a negotiating mandate authorising the Commission to negotiate with the US a cooperation agreement on vocational training and higher education. The proposed agreement, which will add a new dimension to the EU's cooperation with the US, aims to consolidate the basis of the ongoing cooperation with the US as set up by the 1990 Transatlantic Declaration. It also seeks to strengthen cooperation in five main areas: joint projects carried out by EU/US consortia; study visit grants; financial support for the Fulbright Programme oriented towards European affairs; exchange of information and technical assistance. A first formal negotiating meeting with US representatives is scheduled for 14 December.

### Regulatory Cooperation: Opportunity and Challenge for Law-makers on Both Sides of the Atlantic

#### THE CHALLENGE

In the coming years, administrators on both sides of the Atlantic will have to address a number of new and complex regulatory issues. Giant technological strides in areas such as biotechnology and the information society are likely to lead to substantial changes in lifestyles. Although these developments are to be welcomed as potential sources of new growth and employment, governments around the world will wish to ensure that these new technologies are developed in a manner fully beneficial to society.

Due to their intensive economic relationship, and similar sensitivities in each other's societies, EU and US regulators will often face closely related policy challenges. Yet, while they will typically approach these new issues with common objectives, there is no common approach to assure that the resultant regulatory frameworks are mutually compatible.

Indeed, given the markedly different regulatory processes in the EU and the US, there is a risk that, short of action to the contrary, compatibility would be the exception rather than the rule.

With differences in regulations often the source of trade disputes, the EU-US Sub-Cabinet in September decided to develop further the concept of regulatory coopera-

tion, which seeks to minimise trade and investment frictions arising from differing regulatory systems, by identifying at an early stage common policy responses to new challenges. The concept had been formally launched at the previous meeting. A joint paper of principles and aims for this cooperation will be drawn up for circulation to all EU and US regulators. Regulatory cooperation does not seek to change the existing regulatory systems that the public know and trust, but it should sensitise regulators to the trade consequences of their activities.

#### THE POLITICAL BACKDROP

Regulatory cooperation is a development of commitments made by the EU and US in a number of contexts. For example, the 1990 Transatlantic Declaration on EU-US Relations commits the two parties to expand, strengthen and open further the multilateral trading system. To this end dialogues on technical and non-tariff barriers to trade and on standards were envisaged.

Secondly, the new, stronger GATT Technical Barriers to Trade agreement reflects the concern at the multilateral level about the impact on trade of regulatory divergence. This agreement encourages signatories to support the use of international standards and conformity assessment systems, and to participate in their establishment.

#### COMMON OBJECTIVES

Although the details have not yet been finalised, regulatory cooperation is likely to work on a number of different levels. Many existing transatlantic, expert-level contacts primarily exchange scientific and technical information; regulatory cooperation is so far only performed in a few areas. A first step could be for all such dialogues systematically to devote part of their agendas to regulatory issues, with new dialogues encouraged in other areas of interest (as for example, the forthcoming EU-US Information Society dialogue).

However, a second level of cooperation may be necessary if the problems identified in the introduction are to be tackled fully. Here, regulators would seek to exploit their contacts to learn from each other and to identify common policy responses so that, within the framework of the existing procedures for rule making, new regulations are as compatible as possible with those planned, or in force, in the other party.

An important complement to this activity is a clear, a priori reaffirmation of the commitment to refer to international standards whenever possible, and to provide for sufficiently long lead times on new regulations so that industry - domestic and foreign alike - is able to prepare adequately for the changes.

#### BENEFITS OF REGULATORY COOPERATION

Although the primary benefit of regulatory cooperation is expected to be in the further easing of impediments to trade between the world's largest trading partners, other, less obvious benefits can be envisaged.

In many sectors, the pace of development is such that

products have only a short shelf-life before being superseded. The profitable exploitation of such products requires quick, easy and cheap access to export markets - incompatible regulations in the world's largest markets would clearly be a major impediment to this process, notably for small and medium sized enterprises. In this respect, regulatory cooperation could provide a stimulus to investment as well as to trade.

Beyond the benefits to industry, regulators stand to gain from the process too. Developing new regulations is in itself a costly and time-consuming process; cooperation offers the possibility of learning from each other, and can help cover gaps in expertise in areas where it is too costly to dedicate staff.

#### ■ GATT Panels:

##### Tobacco

A GATT panel on 15 July announced its ruling that a US law on tobacco imports imposing a domestic marketing assessment, which contains a 75% domestic content requirement, was inconsistent with GATT Article II section 5. Additionally, a budget deficit assessment provision was ruled to deny national treatment to tobacco imports into the United States and was found to be inconsistent with Article III section 2. This is because foreign flue-cured tobacco is taxed at a higher rate while some US varieties of tobacco are exempt.

The EU was not a complainant in this panel but, in the light of its commercial interests in tobacco exports to the US, made a third party submission. The US has since made known its intention to pursue negotiations under GATT Article XXVIII in order to re-negotiate its tariff arrangements on tobacco with GATT Contracting Parties who have either negotiating rights or commercial interest. The EU has indicated its intention to enter into these negotiations which may have to wait until the entry into force of the World Trade Organization on 1 January 1995.

##### US Car Taxes

In May 1993, the GATT Council agreed to EU's request for the establishment of a GATT panel to examine the compatibility of the US luxury excise tax on automobiles, of the so-called gas-guzzler tax and of the Corporate Average Fuel Economies (CAFE) penalties with Article III GATT rules on national treatment (see Progress Report, December 1993).

The Panel issued its report in September 1994. Its results are mixed: the US won the case on the luxury and the gas guzzler taxes but lost on the CAFE requirements. On the luxury tax, the Panel found that the policy objective of the legislation was to raise revenue from the sales of "luxury" products and that the fact that a large proportion of EU imports was affected did not demonstrate that the legislation was aimed at affording protection, nor that it had such an effect.

Concerning the gas guzzler tax, the Panel found that it was not targeting foreign cars given that the technology to meet the economy threshold was widely available and that, when introduced in 1978, most US cars could not reach the final target set in the legislation. Concerning the difference in treatment between domestic and imported cars, it found that the methodology that created these differences was consistent with the policy goal of conserving fuel. It was not convinced that it gave an advantage to manufacturers with a wide range of variations within the same model type neither that such an advantage, if existed, was inherent to US manufactures alone. As for the exceptions of the measure (light trucks) the Panel repeated that the efficiency of the legislation was not relevant here and that such products were not inherently of domestic origin. The Panel found two aspects of the CAFE methodology inconsistent with Article III:4:

- the separate foreign fleet accounting accorded less favourable conditions of competition to foreign cars than those accorded to like domestic products;
- the fleet averaging resulted in less favourable treatment of limited-line manufacturers, a disadvantage that could not be applied to imported products because it did not relate to the cars as products but was based on the ownership or the control relationship of the manufacturer.

The USTR cheered at the issuance of the report and went public with a Press Release on the same day. In doing so, it breached the GATT panel procedural rules on the circulation of the panel reports. Moreover, it dismissed as technicalities the inconsistencies with GATT rules found in the CAFE provisions and announced that it would not change them. The European Commission considers this Panel Report to be a backward step in the interpretation of GATT Article III which would allow inventive tax and regulatory authorities to discriminate against imported products. The EU is still examining the Panel Report and its consequences and has not decided as yet on its future course of action in this respect.

#### **Lead & Bismuth Steel**

A GATT panel, established in June 1993, ruled that the US violated its GATT obligations by levying countervailing duties on imports of so-called hot-rolled lead and bismuth carbon steel from France, Germany and the UK. The panel had been requested by the EU to review US government anti-subsidy decisions imposed in an avalanche of anti-dumping and countervailing duty suits brought by the US steel industry after the expiration of a voluntary export restraint system in 1992.

The panel upheld on a number of points the EU's claim that the US Administration's method of calculating countervailing duties artificially inflates the level of the alleged subsidies. Thus, the panel found for example that the US had acted inconsistently with its obligations under the GATT Subsidies Code in treating debt forgiveness by private banks as a subsidy or by assuming

that subsidies granted to a state-owned company were simply "passed through" when this company was subsequently privatised. Interestingly, the panel report also contains language that could amount to a first step towards limiting the Department of Commerce's extensive reliance on so-called "best information available". However, the panel did not accept the EU's arguments that the US had acted in violation of the Subsidies Code by allocating subsidies over an average useful life of assets of 15 years or by treating equity infusions by a government as subsidies in cases where a private investor would not have made similar investments.

#### **Reformulated Gasoline**

A GATT panel was established in October at the request of Venezuela to examine the GATT-compatibility of a regulation under the US Clean Air Act dealing with the levels of pollutants permissible in "reformulated gasoline" (RFG).

As part of its plan to reduce air pollution, the US Environment Protection Agency is requiring all refineries to sell, in the nine largest metropolitan areas, a cleaner, differently composed, ie "reformulated" gasoline. The plan aims at achieving certain standards by 1998, with reductions in pollutants starting in 1995. The issue in question is the discriminatory standard to which foreign and domestic refiners are held. Setting 1990 as the reference year, both foreign and domestic refineries are bound each year to decrease the amount of pollutants contained in their gasoline. However, while foreign refineries are held to the average level of pollutants contained in all the RFG sold in the US in that year, domestic refiners would be allowed to refer to their own individual level of pollutants in 1990, so that - if their gasoline had been of lower quality than the 1990 average - they would be given more leeway than foreign refiners. Venezuela argues that this rule violates inter alia the national treatment provision of GATT Article III as well as the Most Favoured Nation obligation of Article I, since non-US refiners owned by US companies, which exported at least 75% of their total production to the US in 1990, are granted the same treatment as domestic refiners.

The EU has not joined the Venezuelan complaint but has reserved its right to make submissions to the panel.

#### **Commission Sponsored Seminars and Studies on EU-US Relations**

Each year under the General Budget of the Commission, provision is made for an allocation of credits for specific measures concerning the US. This is intended to cover expenditure on a scheme to improve trade relations between the Community and the United States by organising information seminars on Community policies for decision-makers.

The amount of credits available in 1994 was 200.000 ECU which was a reduction of 60 % compa-

red to previous years. Financing is usually in the form of a subsidy towards the costs involved with the balance being provided from other sources or from the organisers own funds.

In 1994, altogether 16 projects were financed under this budget line. Seminars, conferences, talks, etc. accounted for 70 % of the total, and research and studies for the remaining 30 %. The organisations concerned included: Transatlantic Policy Network, Brussels; The European Institute, Washington; The University of Washington, Seattle; The European-American Center for Policy Analysis, Delft; European Community Studies Association, Pittsburgh; Centre for International and Security Studies at Maryland; European Institute of Public Administration, Maastricht; America-European Community Association, Brussels; Center for Strategic and International Studies, Washington; International Boston Inc. Atlantic Rim Network; North Atlantic Research Inc. Washington.

The Commission contributes to the formulation of the project in return for its financial support and participates in its execution. Grants are awarded strictly on an annual basis and do not constitute an entitlement for the future.

The Commission considers that the financing of these projects assists it in improving and reinforcing the bilateral relationship and defining Community interests vis-à-vis the United States.

Three of these 1994 projects were jointly financed by the Commission and the US Mission to the EU. A report on the first two of these - a Conference on Growth and Employment and a Workshop on Immigration into Western Societies was included in the July 1994 Progress Report. The third, entitled "Transatlantic Joint Action Initiative", was inaugurated on 25 April on the occasion of Commissioner for External Economic Relations Sir Leon Brittan's visit to Washington and US Ambassador to the EU Stuart Eizenstat addressed a working session on 12 May. This initiative was created by the European Institute in Washington to examine new avenues for improving existing structures of cooperation and to propose new channels of communication for the transatlantic relationship. The project will continue until mid-1995.

## ■ Update on Recent Developments

### Car Labelling in the US

Section 355 of the Transportation Appropriations Act of 1993 requires auto makers to place labels on new cars distributed for sale in the US detailing among other things the percentage of US/Canadian parts that went into the car as well as indicating the final assembly point by city, state and country.

This Act was adopted by Congress on 1 October 1992 and signed into law by the President on 6 October of the same year. The labelling requirement took effect on 1 October 1994.

Upon its formal notification to the GATT Committee on Technical Barriers to Trade (TBT), the European Commission, believing that this measure constitutes an unjustifiable discrimination, contrary to Article 2.1 of the GATT Code on TBT, requested the US on 18 January to modify it accordingly.

The US responded to the Commission's observations in July, at the publication of the Final Rule (definitive version of the regulation) implementing the labelling requirements. It considered that the latter are strictly for information and have no other effect. Therefore, they would not interfere with GATT obligations.

The EU protested that this answer was given only on the day of the publication of the Final Rule, which departed significantly from the previous texts, and requested additional time to analyse it. As for the substance of the answer, it considers that, since the labelling requirements are mandatory, they clearly fall within the scope of the TBT Agreement. Therefore, the obligation not to create unnecessary barriers to trade applies, unless the US authorities demonstrate that the objectives of the requirements are legitimate, as for instance the prevention of deceitful practices. Subsequently, the EU raised the problem of inadequate consultation in the 27-28 October meeting of the TBT Committee.

### Competition Agreement Declared Void by European Court of Justice

Due to the increasing globalisation of the economy and of businesses' operations, competition authorities are more and more concerned by the limited reach of their instruments. In addition, in trying to regulate companies' anti-competitive practices, they often are in danger of invading foreign jurisdiction. Acknowledging the need to avoid such conflicts while at the same time improving the application of their respective competition laws, the European Commission and the Government of the United States concluded a competition cooperation agreement in September 1991 (Agreement between the Commission of the European Communities and the Government of the United States Regarding the Application of their Competition Laws). It provided for an exchange of information and the application of certain rules to avoid conflicts of law.

This agreement has been challenged by three Member States in the European Court of Justice on the grounds that the Council, rather than the Commission, should have signed it. In August, the Court found that the Commission did indeed lack the competence to conclude it but did not question its substance.

Convinced that this agreement had so far proved beneficial in enhancing cooperation between competition authorities on an international level, on 14 October the European Commission transmitted to the Council a proposal ensuring its correct conclusion.

### Conditional National Treatment

The December 1993 issue of the Progress Report expressed the European Commission services' concerns

about the proliferation of legislative proposals in 103rd Congress conditioning the principle of national treatment and providing for the possibility of discrimination against US affiliates of European companies.

This phenomenon was most notable in the area of science and technology where the granting of federal subsidies for research and development, or other advantages, to US-incorporated affiliates of foreign companies would be made to depend upon a number of conditions.

There are two basic forms of conditional national treatment: reciprocity clauses and performance requirements. Reciprocity clauses are not always related to the sector in which the foreign company wants to be economically active in the US (cross-sectoral reciprocity). Performance requirements relate either to the impact of the foreign controlled company's activities on the US economy and the US labour market, or to parameters of production (volume, local content).

This issue is embedded in a more general discussion in the US, focusing on the role of foreign controlled companies in the US economy, the competitiveness of US controlled companies and a growing concern about an asymmetry of trade between the US and certain foreign countries, notably Japan. Since last year, this issue has been raised in several high-level contacts between the European Commission and the US Administration.

At the end of the 103rd Congress, only two of the twelve or so proposals tabled were adopted and signed into law:

- the National Cooperative Production Act, which extends the favourable antitrust treatment applying to joint R&D ventures to joint manufacturing ventures. A foreign-controlled company may participate in a joint venture receiving favourable antitrust treatment depending on the location of the principal facilities of the venture and on whether its country of "origin" affords similar treatment to US companies under like circumstances, and

- the 1994 Defense Authorization Bill, which provides the funding for the Defense Technology Reinvestment Projects. To participate in these projects, a company must conduct a "significant" level of its R&D, engineering and manufacturing activities in the US and be a US-controlled company, or a company whose parent country encourages the participation of US companies in publicly-funded R&D consortia and affords "adequate and effective" protection for intellectual property rights of companies incorporated in the US. The last legislature added a provision to require the Secretary of Defense to ensure that the principal economic benefits of these arrangements accrue to the economy of the United States.

However, it must be feared that the Conditional National Treatment issue will return in the 104th Congress.

#### **ETSI Dispute Close to Resolution**

After two years of wrangling, it seems that a solution has been found in the dispute about European

Telecommunications Standards Institute (ETSI) proposals in the field of Intellectual Property Rights (IPR). The problem dates back to 1992 when the Commission asked ETSI to develop a policy for the IPRs incorporated in their standards. The following year, new rules were adopted which, in essence, required an IPR holder to agree automatically to license their IPRs for use in ETSI standards. US industry (with Administration support) opposed the new regulations and eventually pressed ETSI to look again at the issue.

The US' major concern centred on the application of the policy to products using ETSI standards but marketed outside the EU. Under the rules, if a non-EU country adopted ETSI based standards, ETSI members would be obliged to license their IPRs in this country under the same conditions as in Europe. Hence, if the US adopted ETSI standards, ETSI members holding IPRs would no longer be able freely to negotiate US royalties as they do at present.

On the other hand, most EU Member States, and the Commission, argued that ETSI standards will best gain international standing only if the underlying proprietary technologies are made available in the most open and fair manner.

Although the review had made progress towards a compromise, a series of decisions during the Summer changed the picture substantially. Following agreement at a meeting of ETSI on 23 November, the mandatory licensing system has now been replaced by a form of words requiring ETSI to endeavour to ensure that IPRs used in its standards are made available in fair and equitable fashion to all members.

#### **EU Enlargement - Article XXIV:6**

US and EU representatives have had some informal exchanges of views on possible problems arising from prospective EU enlargement and the introduction of the Common Customs Tariff in the acceding countries when they become EU members. The European Commission has pointed out that discussions on any compensation to the US, in accordance with GATT Article XXIV:6, could not start until the positive outcome of the referenda in the three acceding countries had been ratified. Notification to GATT, subject to ratification of the Accession Treaty, could take place no earlier than the beginning of December. The GATT would then be informed of the EU's readiness to enter into tariff negotiations and a working party set up. The US is seeking compensation for increased duties charged by the three following their accession. The Commission has stressed that as in the past the overall situation which involves decreases in duty rates as well as increases will have to be taken into account.

#### **European Energy Charter**

On 14 September the chairman of the European Energy Charter Conference forwarded the Draft of the Treaty to the Negotiating Parties and called on the participants to adopt it before the end of October. Signature of the Energy Charter Treaty (ECT), and by it successful

conclusion of almost three years of negotiations, is scheduled for 16-17 December in Lisbon.

The ECT aims to establish the framework for an efficient European energy market in order to ensure supply, improve energy efficiency and limit the adverse environmental impacts of energy production. To place the commitments on a secure basis, it above all contains binding rules on trade and investment in the energy sector and on transit of energy products. The improved investment climate resulting from the ECT should help in particular the Central and Eastern European countries and the CIS Republics to attract badly needed investment in the energy sector.

At the time of writing the EU had declared its acceptance of the draft ECT, but internal deliberations within the US Government on whether or not to sign were still going on. The US Federal Government is particularly reluctant to accept the ECT provision that calls for full Treaty compliance by sub-federal entities (federal states and local authorities). The EU and all other Negotiating Parties have argued that without such a provision the ECT would be worthless for western investors in the CIS Republics, in particular in Russia where the sub-federal level enjoys considerable and unpredictable freedom.

The EU has had repeated and intensive bilateral discussions with the US in the past months in order to help overcome the US difficulties. It is hoped that the US will finally be able to accept the text, thus making the ECT an even stronger instrument.

#### Export Controls

The US Congress failed to pass the proposed new Export Administration Act before the November elections. On 20 August President Clinton extended the existing legislation under the International Economic Emergency Powers Acts. The Administration is expected to return to Congress in 1995 to get new legislation passed.

In the ongoing multilateral talks on a new international export control regime for dual-use products, in which all EU Member States and acceding countries are taking part, a number of key issues remain to be solved. All participants agree that Russia should be invited to join the new arrangement from the outset, but cannot agree on what conditions this should be done. The US demands far-reaching commitments from Russia to restrain arms sales to countries of concern, in the first place Iran. Other areas of contention among the present participants are agreeing on criteria for granting exports of sensitive products and arms to countries of concern and the extent to which approved and denied transactions should be reported to other participants.

#### FDA/DG III Talks

The sixth bilateral meeting between the US Food and Drug Administration (FDA) and the Commission (DG III, Directorate-General for Industry) took place on 24-26 October 1994. The meeting was held as part of a series of regular consultations launched in 1989 to provide a forum for the discussion of matters of mutual

interest and concern and to identify practical areas for the harmonisation of regulations. These meetings complement the many contacts on specific issues that take place between the two sides on a bilateral basis or in multilateral fora.

The general discussions centred on such issues as recent personnel changes in the two organisations, information exchange, subjects bearing on regulatory initiatives and harmonisation efforts, such as development and use of international standards. Working Group discussions dealt with a range of food-related topics including FDA regulatory activities addressing problems posed by lead, FDA's proposed rule making on mineral water, an update on US and EU activities to improve food labelling, the FDA's Advance Notice of Proposed Rulemaking on Hazard Assessment and Critical Control Points, the use of sulphites in dried apples and pears, and an FDA proposal on threshold of food additive regulation.

At the conclusion of the meeting, the two sides reached agreement in a number of areas including consideration of ways to develop a mechanism for sharing of appropriate inspectional and regulatory information and building the mutual confidence necessary to reach an agreement on pharmaceutical good manufacturing practice.

#### Jobs and Growth Activities

When they met in Berlin in July, Presidents Delors and Clinton and Chancellor Kohl chose to focus much of their Summit on the issue of jobs and growth. At the G-7 Summit in Naples a couple of days earlier, the three had received a report of the Detroit Jobs Conference (see Progress Report, March 1994), where the G-7 countries reached an unprecedented consensus on some of the underlying causes and possible remedies of the unemployment blighting our economic and social landscape.

Much of the follow-up to Detroit is being handled by the OECD. However, the three leaders agreed at their Summit that there was considerable potential for EU-US cooperation in this area, since there is clearly everything to gain from policy makers sharing experiences, and learning from one another on this particularly difficult subject.

In view of this agreement, the Sub-Cabinet decided to establish a bilateral dialogue at official level of policy makers working in the fields of jobs and growth. The aim is to consider policy orientations resulting from the Detroit and Berlin meetings, including fiscal incentives and targeted assistance for particular labour force groups.

It is envisaged that DGs II (Directorate-General for Economic and Financial Affairs) and V (Directorate-General for Employment, Industrial Relations and Social Affairs) will participate in this dialogue with their opposite numbers from the Departments of Treasury and Labour. Progress is to be reported back to subsequent Sub-Cabinet meetings.

### Leghold Traps

The EU and the US continue to be at odds about a 1991 EU regulation prohibiting not only the use of leghold traps in the EU but also banning the importation of pelts and manufactured goods of certain species caught by means of leghold traps or other trapping methods not meeting international humane trapping standards. In response to - mainly - North American objections, the EU has now delayed implementation of the import ban until 1 January 1996.

Following a letter from USTR Kantor to EU Commissioner for External Economic Relations Sir Leon Brittan, further discussions of the issue took place at working level in early October. They centred on the forthcoming ISO standards for (humane) trapping methods, expected to be issued by June 1995. Possible amendments to the Regulation to render it less trade-restrictive were also discussed informally.

### Maritime Transport

Other pending pieces of legislation affecting maritime transport also lapsed at the end of the 103rd Congress. These included the Clay Bill (HR1517) and the Wofford Bill (S1885) which sought to impose certain provisions of US labour legislation on foreign vessels calling at US ports and also the Murkowski and Stevens Bill (S1993) and the Thomas Bill (HR 4369) which could effectively reserve the carriage of Alaskan oil exports to US owned and US manned vessels. The Consultative Shipping Group, representing major shipping countries, delivered a démarche in July to the US State Department objecting to the proposals on the export of oil from Alaska as the effect would be an increase in cargo reservation. The European Commission was a party to the démarche of the "Cotton Club" and the Commission Delegation sent a letter on 1 August to the US Department of Energy expressing the concerns of the Commission about a possible amendment to the Export Administration Act that would impose a cargo reservation scheme for the export of Alaskan North Slope oil. Commissioner for Energy and Transport Oreja also raised the matter with US Secretary of Transportation Pena in Washington in July.

At the conclusion of the Uruguay Round negotiations it was agreed that maritime transport negotiations would continue until June 1996 in the framework of the GATS Negotiating Group on Maritime Services, with a view to eliminating restrictions on international shipping, auxiliary services and access to and use of port facilities. The Commission is seeking the highest degree of commitments from the US through a process of multilateral commitments rather than unilateral actions.

In July, the US Coast Guard issued a Final Rule on Certificates of Financial Responsibility under the Oil Pollution Act 1990. This is due to enter into force progressively from December. The Commission and the Consultative Shipping Group have consistently opposed the 1990 Act preferring that the US ratify the multilateral convention on oil spills - the International Maritime Organisation (IMO) protocols to the International Oil Pollution Compensation Fund. The EU

considers that the direct and unlimited provisions of the Act place at risk the continuation of the world-wide availability of marine pollution insurance cover, particularly through reinsurance. The Commission expects the US to fully consider the consequences of this action.

A new Transatlantic Conference Agreement (TACA) on rate-making procedures and capacity rules is scheduled to be introduced in January 1995 governing ocean commerce across the North Atlantic. The Commission and the Federal Maritime Commission have held discussions with a view to clearing the way for approval of the Agreement by the European Commission.

### Reclassification of Multi-Purpose Vehicles: the Unexpected Ramifications of an Old Story (Classification of Minivans)

In 1964 the US imposed a tariff ad valorem rate of 25% on light-duty trucks in retaliation for an increase of the import duties applying to poultry in Germany, subsequent to the introduction in July 1962 of the common tariff of the then European Economic Community (the so-called "chicken wars" of the sixties).

With time, the introduction of multi-purpose vehicles (MPVs), such as mini-vans or sport/utilities vehicles, blurred the distinction between light trucks and passenger cars, the tariff rate for which was substantially lower (now 2.5%). The US Customs policy has been to classify MPVs as passenger cars if they were provided with rear seats and other passenger-related amenities and as trucks if they lacked them.

In January 1988, US Customs reversed their policy, deciding to classify all MPVs as trucks, subject to the 25% rate, but the US Treasury Department overruled this decision in February 1989. However, in doing so, it affirmed that sport/utility vehicles with four doors would be classified as passenger vehicles and those with two doors as trucks, creating thus a new problem.

This decision was challenged in US courts as well as in the Harmonised System Committee of the Customs Co-operation Council. The latter concluded, in a non-binding opinion, that in the cases brought to its attention, the two Japanese sports/utility vehicles concerned should have been classified as passenger cars. US auto-makers have also contested this decision and have been lobbying hard the Administration and Congress to reclassify all MPVs as trucks. The US car industry argued that this decision meant a \$300 - \$400 million gift for Japanese auto makers and cost about 16,000 jobs in the US. In the 102nd (1991-1992) and 103rd Congress (1993-1994) several unsuccessful attempts were made to impose by law the 25% rate on MPVs.

The EU intervened on this occasion, pointing out that a unilateral change of the tariff classification of Multipurpose Vehicles would be contrary to the US obligations under Article II of GATT, as well as those under Articles 3 and 8 of the International Convention on the Harmonised Commodity Description and Coding System. It was emphasised that the traditional European suppliers of Multipurpose Vehicles to the US

market and their dealers were entitled to expect fair and consistent treatment from the US identical to that which the EU grants to US exporters to the EU.

As to the court challenge, on 14 May the US Court of International Trade (CIT) issued a ruling overturning the Treasury's classification of the two-door Nissan Pathfinder as a truck. Despite the fact that the Pathfinder had some "truck-like attributes", it was regarded as a car, principally designed for the transport of persons. The US Administration appealed the ruling but the latter was confirmed by the Court of Appeal of the Federal Circuit on 7 September.

### **Third Round of MRA Negotiations**

A third round of negotiations for an Agreement on Mutual Recognition of Conformity Assessment took place in Brussels on 29 November - 1 December (see July 1994 Progress Report for report of second round).

An MRA would allow EU firms to have their products assessed for conformity to US standards by European laboratories - in many cases, the same body assessing conformity to EU standards. The benefits of this would be particularly felt among small and medium-sized enterprises who would be spared the additional costs of crossing the Atlantic for initial testing before beginning exporting.

A clear picture of the issues at stake, and key difficulties ahead, now exists, and a couple of negotiating areas have had to be suspended pending the adoption of harmonised standards by the Union. A good deal of work is now needed to define more precisely the scope of a future accord and the contents of the technical annexes. Another round of plenary meetings has been scheduled for Spring 1995.

### **Nuclear Energy Cooperation Agreement**

Two further meetings between European Commission and US Government officials took place in Washington and Brussels on 3-5 October and 1-2 December respectively, with a view to drawing up a new agreement for peaceful nuclear cooperation. The existing EU-US nuclear cooperation agreement dates back to the late 1950s and has been the basis for fruitful cooperation in the use of nuclear energy and extensive nuclear trade for more than three decades. The present agreement expires at the end of 1995. Both the European Union and the US wish to maintain this cooperation.

The negotiations came to a standstill over the US refusal to grant the EU - whose non-proliferation credentials were termed "second to none" by US Secretary of State Warren Christopher - a waiver from provisions of the 1978 Nuclear Non-Proliferation Act which would result in establishing US control or overview of certain fuel-cycle operations in the EU. However, both Secretary Christopher and US Secretary of Energy Hazel O'Leary did promise flexibility in the US position and the two recent meetings between the negotiating teams served to explore and clarify the scope of this commitment. While progress was made in both these meetings, some major issues remain unresolved.

The status of the negotiations is on the agenda of the General Affairs Council of 19-20 December and a decision is expected on the options available to the EU as to how best to proceed. In the light of its conclusions, Commission and US government representatives are scheduled to meet again as early as 10-11 January 1995 to establish a way forward in the negotiations so as to avoid the commercial and political consequences of there being no nuclear agreement in place between the EU and the US on 1 January 1996.

### **Section 301 Investigation against EU Bananas Import Regime**

In July 1993, the European Union instituted an EU-wide banana regime to replace the regimes many EU Member States had maintained in favour of banana imports from certain countries in Africa and the Caribbean. Subsequently, five Latin American banana exporting countries, namely Colombia, Costa Rica, Guatemala, Nicaragua and Venezuela, brought and won a GATT dispute settlement suit against the EU banana import regime. This spring, the EU and four of these five Latin governments signed a "Framework Agreement on Bananas", in which the four governments settled their GATT cases against the EU in exchange for modifications in the EU banana import regime.

In September 1994, Chiquita Brands International Inc and the Hawaiian Banana Industry Association filed a petition requesting a Section 301 investigation. On 17 October USTR Kantor initiated an investigation under Section 301 of the 1974 Trade Act of European Union practices that allegedly discriminate against US banana marketing and distribution companies.

Since the Framework Agreement has not yet been implemented, the USTR decided not to grant at this time the petitioners' request to initiate Section 301 investigations of the practices of the four Latin American signatories to the Framework Agreement. It is understood that the USTR will seek consultations with the EU on this issue soon, but they have up to 12 months to conclude the investigation. It is notable that this investigation concerns alleged discrimination against US foreign investments rather than exports of goods.

### **Shipbuilding**

Following completion of the negotiations at the OECD in Paris in mid-July on a Shipbuilding Agreement on the elimination of aids in the shipbuilding sector, administrative procedures continued in the OECD on the legal checking of the text in preparation for the official signing of the Final Act by the Commission, the United States and the other major shipbuilding nations. This will take place on 21 December and will be followed in due course by the ratification process in each of the participating nations, prior to the entry into force on 1 January 1996. In September, Commissioner Sir Leon Brittan wrote to USTR Kantor, expressing concern about proposed maritime legislation (HR 4003) passed



by the House of Representatives providing for "so called series transition payments" to US shipbuilders which he argued were "clearly incompatible with the provisions of the OECD agreement and would violate the commitment to a standstill before the entry into force of the Agreement". In addition he pointed out that the project for a tonnage tax would infringe a number of GATT provisions by introducing disguised taxation and a discrimination between imported goods and domestic goods. USTR Kantor replied in early October with an unequivocal statement of opposition by the Administration to new subsidy schemes in favour of US shipbuilding. In the event this piece of legislation was blocked in the Senate Commerce Committee and lapsed on the recess of the 103rd Congress in October.

## ■ New Technological Challenges:

### The Information Society - Recent Developments

There has been no let-up in the rapid development of the information society since the last Progress Report of July 1994. As preparations for the EU-US Information Society Dialogue in November and the G7 Conference next year take shape, this article briefly reviews some of the recent developments on both sides of the Atlantic in the telecommunications revolution.

#### EU INFORMATION SOCIETY

The Corfu Summit last June welcomed the Bangemann report, Europe and the global information society (see Progress Report, July 1994), and agreed to set up a 'permanent co-ordination instrument' (a minister from each Member State and a Commissioner) to ensure that all parties concerned work along similar lines. They also called for the Commission to bring forward an action plan - delivered in July - and agreed to reassess progress at their December meeting.

The action plan, Europe's way to the information society, foreshadows the publication of a number of Green Papers, including on infrastructure issues, standards and IPR. Equally, once the responses to the Green Paper on mobile communications have been analysed, legislation may be proposed in 1995. The Commission is also finalising the first phase of its policy based on the 1990 Satellite Green Paper.

#### US NATIONAL INFORMATION INFRASTRUCTURE (NII)

In the US, the Information Infrastructure Task Force, set up to coordinate the development of policies to implement the NII, has continued its work. Hearings were held in July on international aspects, and reports on a number of subjects are being prepared.

In June, the President's Council of Economic Advisers published an analysis of the economic benefits of the NII initiative. Their conclusions suggested that the early introduction of an appropriate regulatory framework in the US for the information society would yield some US\$100 bn of economic gains over a ten year period, and create up to half a million new jobs. The

telecommunications and information sector is set to double its importance in terms of share of US GDP by 2003.

Attention now is focusing on the December Personal Communications Systems (PCS) auctions. The Federal Communications Commission (FCC) intends to sell frequencies for use with the next generation of ultra-compact mobile telephones. With analysts predicting receipts of up to US\$15 billion from the sales, a host of joint ventures have been announced in recent months as companies seek to share the financial burden. Up to 74 consortia are expected to participate in the auctions.

#### RBOC LEGISLATION

The US Administration received a major set back in October, when legislation amending rules controlling the operations of the Regional Bell Operating Companies (RBOCs) lapsed following the dissolution of Congress ahead of the elections. The House agreed its text in June which provided for the deregulation of the RBOC's local markets - enabling other telephone companies and cable TV operators to enter - as a precursor to their competing in the long distance and cable services market, and being able to manufacture and supply telecommunications equipment.

However, progress in Senate become irreparably blocked on the issue of entry into local services; the RBOCs lobbied hard against the undermining of their current positions. In a series of parallel developments, the RBOCs achieved a number of court successes which overturned previous restrictions on their entry into cable services, and hence reducing the value of the new legislation for them.

The EU's major concern has been the requirements, included by the House, on manufacturing requiring the use of locally produced parts whenever possible. While the Commission is relieved that these invidious measures will not be introduced in the very short term, there is concern that they may reappear when and if Congress considers new legislation in this area.

#### LEOS (LOW EARTH ORBITING SATELLITES)

The FCC recently adopted provisions for licensing operators of this new, and inherently global, technology. The Commission is considering to what extent the provisions adopted meet the requirements set out in a démarche last June (see Progress Report, July 1994).

On the most contentious issue, allocation of frequencies, the FCC has adopted proposals which should allow up to five systems to be licensed. In so doing, all of the available frequencies will be made available from the outset, leaving no space for subsequent, and potentially European, enterprises to operate in the US. The EU had highlighted this concern in its June démarche, arguing that LEO-based services will struggle to survive in the absence of an internationally agreed division of the available frequencies.

## ■ Trade and Economic Relations with Third Countries:

### Japan

On 30 September, under the shadow of threatened US unilateral sanctions, Japan and the US concluded four trade agreements in the priority areas listed by the July 1993 Framework Agreement. These cover insurance, government procurement of medical technology and procurement of telecommunications from government agencies and NTT. In addition, Japan agreed to measures promoting exports to Japan. Finally, a set of principles for the finalisation of an agreement on flat glass was agreed.

This round of talks was noteworthy for its lack of achievement with regard to the negotiations on cars and car parts which led to the US threatening unilateral sanctions (Section 301 procedures, albeit limited to Japanese replacement parts).

The four agreements are on a Most Favoured Nation (MFN) basis and are result-oriented. However, Japan won its case that no numerical targets be embedded in these agreements and that qualitative and quantitative criteria to be used for assessing progress will be considered as a set. The agreements contain elements for procedural reform which aim to give greater security to the business environment, promote fairer competition and deregulation. A monitoring system is provided for, which allows, in certain cases, for the possibility of hearings and of participation by foreign business interests.

The Commission welcomed the progress thus made on market opening in Japan, which Japan claims to be to the benefit of foreign operators, products and services. However, it expressed concern over the risk of a discriminatory impact on EU interests as the monitoring of these agreements will be carried out by the US and Japan only, despite their MFN nature. For this reason, the EU made an official *démarche* to the US and Japanese Governments requesting full European participation in the monitoring.

At the EU/Japan Ministerial meeting in Tokyo on 18 November it was agreed to establish a system of EU-Japan parallel monitoring to ensure MFN treatment of EU products. Participation of business interests in discussions on public procurement organised by the Japanese authorities will be ensured on an equal basis.

### China

China is the fifth largest exporter to the US and accounts for 17% of total US trade with the world. The rapid increase in imports from China and the growing trade imbalance with the US explain why US policy makers are focusing more attention on the evolving Chinese economy and its impact on the US. President Clinton's decision to delink human rights and trade issues and to renew MFN treatment to China in the summer seems to have paid off. A more cooperative relationship has been developed between the US and China over highly sensitive technology export control,

and major contracts have been signed, eg in November, for the purchase of aircraft from McDonnell Douglas worth US\$1.6 bn. Although China continues to be wary of US "interference" on human rights, the atmosphere surrounding the September 1994 visit of Commerce Secretary Ron Brown to China was in stark contrast to other visits by leading members of the Clinton Administration.

The issue of China's accession to GATT is an important one in US-China trade relations. China is, through impressive growth fuelled by imports, exports and foreign direct investment, rapidly becoming a major trading power. At the same time, however, there still exists a myriad of barriers reminiscent of managed trade. This is at the core of the accession negotiations: the US and all trading countries have an interest in seeing further reforms implemented in China, and in having these cast in a solid legal framework. The EU and the US agree that China should be ready to shoulder WTO commitments in keeping with its status as an important emerging trading nation. This implies a strict respect of the non-discrimination principles on which the WTO is built, as well as guarantees on a liberal access for goods, services and investment. China's access offer will have to be substantially upgraded, in particular on industrial tariffs and agriculture. China's willingness to undertake such commitments will largely decide the timeframe within which the accession negotiations can be completed.

### APEC

On 15 November the 18-member Asia-Pacific Economic Cooperation forum\* held its annual Summit in Bogor, Indonesia. In a joint declaration issued at the end of the Summit, the leaders announced their commitment to completing the achievement of free and open trade and investment, not later than the year 2010 for the industrialised economies and 2020 for the developing countries in APEC. While no starting date for the liberalisation process is mentioned, the Summit agreed a standstill under which APEC members would endeavour to refrain from using measures which would have the effect of increasing levels of protection. APEC leaders also emphasised the importance of trade facilitation, concluding that mere liberalisation efforts were insufficient to create trade expansion. To this end, they requested ministers and officials to submit proposals on APEC arrangements for customs, standards, investment principles and administrative barriers to market access. The Summit was preceded by a two-day ministerial meeting on 11-12 November which dealt in more detail with a number of operational points. Among the decisions taken at ministerial level was the endorsement of the creation of a business/private sector advisory body and a set of Non-Binding Investment Principles. The 12 principles listed are aimed at ensuring that investment laws are transparent and that foreign investors are not discriminated against. From an EU point of view, APEC's strong commitment to pursuing the long term goal of free trade and invest-

ment in a GATT-consistent way is of particular importance. In addition, APEC leaders expressly declared their will to "pursue free and open trade and investment in a manner that will encourage and strengthen trade and investment liberalisation in the world as a whole".

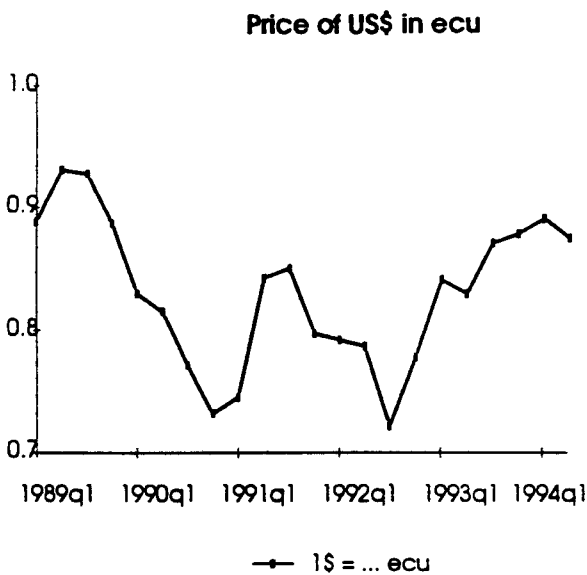
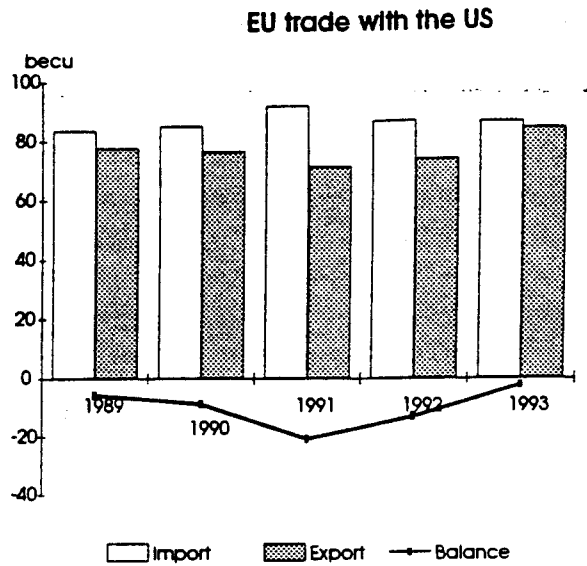
APEC thus moving forward, the Commission considers that a systematic, informal dialogue would be mutually beneficial. The EU is interested in sharing thoughts with APEC on how to advance towards further growth and economic integration and therefore welcomes suggestions, emerging in Asia, for closer political level contacts, particularly between the European Union and East Asian countries. Both before and after the Bogor Summit, high level contacts took place between the EU and the US, in which the US explained its views on APEC's future development and provided its assessment of the results achieved. The EU holds the view that given its own experience in economic integration it might usefully contribute to the thinking of the APEC partners, particularly where issues are simultaneously under discussion in Asia, in Europe and in multilateral fora such as the World Trade Organization.

*\* APEC's diverse members include Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, South Korea, Taiwan, Thailand and the US.*

# STATISTICAL ANNEX

## EUROPEAN UNION TRADE WITH THE UNITED STATES - RESULTS FOR 1993

### Part I: Summary



Trade between the EU and US in 1993 was very nearly balanced. The EU's overall deficit with the US was just 2.2 bio ecu, down from 13 bio ecu in the previous year.

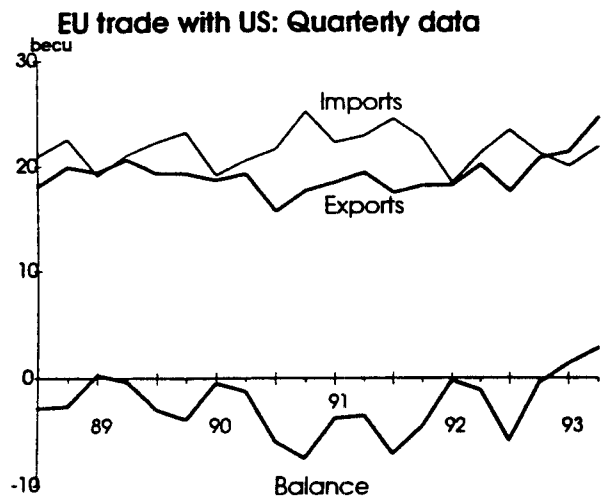
The EU recorded a surplus on trade in the second half of 1993. For the year as whole, EU imports declined slightly. Exports increased 14%, with manufactured products performing particularly well. This performance reflects the rather better economic conditions in the US during 1993, but occurred despite continued appreciation of the ecu vis-à-vis the dollar

The EU-US bilateral trade relationship remains the most substantial in the world. The EU and US remain each other's biggest export markets. Only Japan sends more goods to the US than does the EU.

Among the member states, the UK was the biggest importer of US produce, and Germany the biggest exporter. Germany and Italy recorded improved surpluses in 1993, and Denmark moved into a small surplus following a deficit in 1992. Among those in deficit, only France and Ireland failed to improve their position in 1993.

### Part II: EU trade with the US by product groups

#### Overall trade flows



After a long series of quarterly deficits, the EU recorded an increased surplus of nearly 3 bio ecu in the final quarter of 1993. This followed the 1.3 bio ecu surplus in the previous quarter (see July Progress Report).

For the year as a whole, the EU recorded its smallest deficit with the US since 1988, just 2.2 bio ecu. Imports fell fractionally during the year, while exports rose 14%. Exporters have therefore profited from the relatively better economic conditions last year in the US.

More recent US data suggests that this trend has continued, with exports continuing to perform strongly. By the end of the first half of 1994, the EU had a clear surplus on trade with the US.

## Trade by broad product group

Trade by products (SITC)	Exports			Imports			Balance		
	92	93	93 IV	92	93	93 IV	92	93	93 IV
Bio ecu									
• Total (value 0-9) (volume 0-8)	73.8	84.1	24.5	86.8	86.3	21.8	-13.0	-2.2	2.7
• Raw materials (0-4)*	7.7	8.7	2.3	13.3	11.7	3.1	-5.5	-2.9	-0.8
• Manufactured products	62.4	72.3	21.4	67.5	69.7	17.7	-5.1	2.6	3.7
- Chemicals (5)	8.4	9.6	2.6	9.6	9.2	2.4	-1.2	0.4	0.2
- Manufactured goods (6)	10.0	12.1	3.5	5.9	5.4	1.3	4.1	6.8	2.2
- Mach. and transport equip. (7)	32.8	38.2	11.7	39.7	40.0	10.5	-6.9	-1.8	1.2
- Miscell. manuf. (8)	11.1	12.3	3.6	12.2	15.1	3.4	-1.1	-2.8	0.2
• Other products (9)	3.7	3.0	0.8	6.1	4.9	1.0	-2.4	-1.9	-0.2

Looking in more detail, it can be seen that the stable EU imports reflect a small decline in raw material imports and a similar increase for manufactured products. On the other hand, exports of manufactured products to the US rose markedly, resulting in an overall surplus in this sector. Meanwhile the deficit on raw materials narrowed slightly.

Overall, it can be seen that the bulk of EU-US trade is in the machinery and transport equipment sectors.

### Principle traded products in 1993

The EU's top ten imports from the US continue to be led by office machinery and computers; this item alone covers more than a tenth of the total value of goods shipped to the EU. Following dramatic increases in

imports last year, miscellaneous goods and electrical machinery are the next biggest import product groups. Other transport equipment slipped from second to fourth place.

As for EU exports, road vehicles and power generating machinery swapped places at the top of the table. Road vehicles notched up a 55% jump in exports last year. Machinery for special industries and electrical machinery both also moved up one position following strong improvements.

Altogether, it can be seen that US exports are more concentrated in a limited number of product areas than are those of the EU - the EU's top ten imports account for 61% of total imports, compared to 57% for the share of top ten exports.

PRODUCTS	SITC Codes	level Bio ecu	annual variation %	share in			
				Extra-EU trade by products**	Tradewith the United States		
					%	% cumulated	
<b>Top 10 imports</b>							
1 Office machinery and computers	75	9.85	5.2	36.8	11.4	11.4	
2 Miscellaneous manuf. goods	89	7.89	57.7	29.6	9.2	20.6	
3 Electrical machinery	77	6.69	20.7	24.1	7.8	28.4	
4 Other transport equipment	79	6.39	-25.1	43.0	7.4	35.8	
5 Power generating machinery	71	5.96	4.1	43.9	6.9	42.7	
6 Precision instruments	87	4.94	2.1	48.4	5.7	48.4	
7 General ind. machinery	74	3.69	1.0	27.6	4.3	52.7	
8 Organic chemicals	51	2.43	-7.6	28.7	2.8	55.5	
9 Machinery for special ind.	72	2.37	5.9	25.1	2.8	58.3	
10 Road vehicles	78	2.30	2.2	9.9	2.7	61.0	
<b>Top 10 exports</b>							
1 Road vehicles	78	7.97	54.8	18.9	9.5	9.5	
2 Power generating machinery	71	5.67	-9.5	33.1	6.8	16.2	
3 Machinery for special ind.	72	5.36	23.6	17.3	6.4	22.6	
4 Electrical machinery	77	4.76	27.1	15.9	5.7	28.3	
5 Other transport equip.	79	4.69	-3.7	20.6	5.6	33.8	
6 Miscellaneous manuf. goods	89	4.67	10.9	21.1	5.6	39.4	
7 General ind. machinery	74	4.23	16.5	14.0	5.0	44.4	
8 Office machinery and computers	75	3.73	13.0	29.5	4.4	48.9	
9 Petroleum, petroleum products	33	3.55	27.1	25.5	4.2	53.1	
10 Non metallic min. manuf.	66	3.42	18.7	20.2	4.1	57.2	

### Part III: The importance of transatlantic trade in the global context

	Imports		Exports		Balance	
	1992	1993	1992	1993	1992	1993
Bio ecu						
EU trade with US	86.8	86.3	73.8	84.1	-13.0	-2.2
EU trade with Japan	51.5	47.6	20.5	22.6	-31.0	-25.0
EU total	487.7	486.0	435.7	482.6	-52.0	-3.4
US trade with Japan**	75.2	92.0	36.2	40.1	-39.0	-51.8
US total**	413.9	505.1	340.3	391.2	-73.7	-113.9
Japan total	179.5	205.5	261.6	308.2	82.1	102.7
World total	2178.7	n/a	2107.4	n/a		

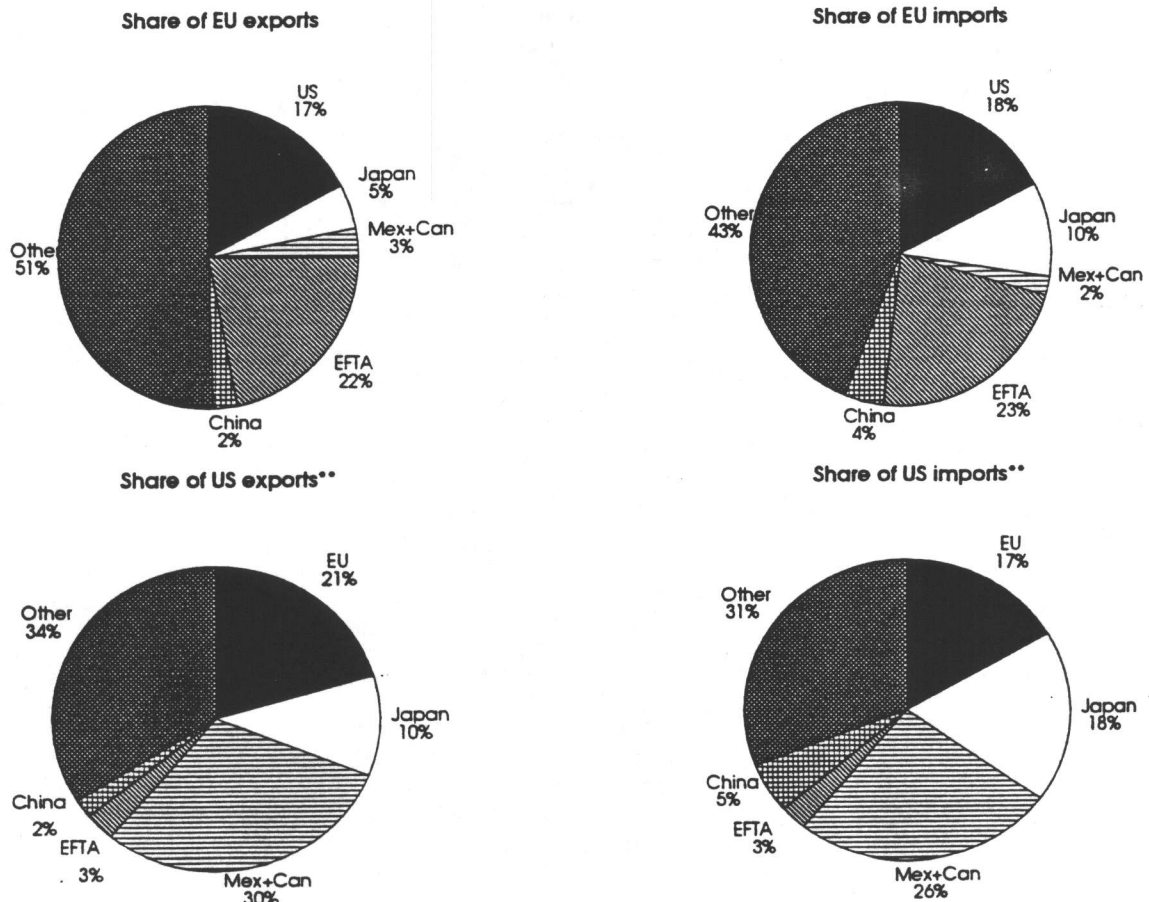
Together EU and US continue to be the world's largest trading partners. Bilateral trade flows rose to 170 bio ecu last year, compared to 130 bio ecu for US-Japan trade flows.

As for trade with Japan, the EU narrowed its deficit, while that for the US increased markedly, and now stands at twice the level of the EU.

#### The EU's and US' principal trading partners

Lastly, the charts below show the leading sources of imports, and most important export markets, for the EU

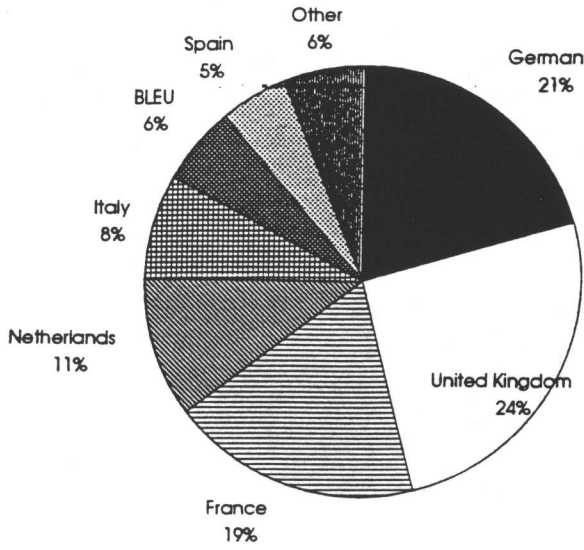
and US. These key markets comprise a larger share of US trade than they do for the EU



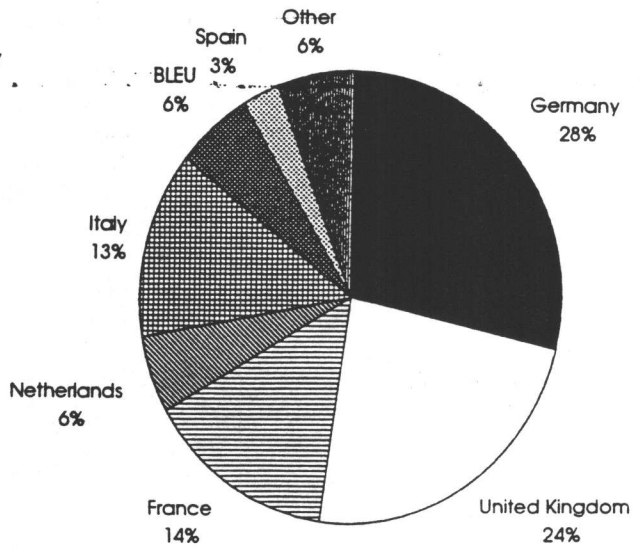
\*\* Source: Survey of current business

Part IV: EU trade with the US by member state

EU imports from US, 1993



EU Exports to US, 1993



EU Trade balance with US

