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PRESS RELEASE

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BACKGROUND NOTE

August 27, 1971

Summary of European Community Statement at a Special Meeting of the GATT
at Geneva on 25 August 1971

In a statement at a special meeting of the GATT in Geneva on August 24-25 to consider the effects of the 10 per cent surtax levied by the United States on imports, Ralf Dahrendorf, member of the Commission of the European Communities with special responsibility for trade policy, made the following points concerning the United States' actions:

On behalf of the Commission, he acknowledged the problem of the U.S. balance of payments deficit and of the need to redress the situation. But he flatly rejected the U.S. thesis that the deficit was caused by the 'unfair economic and trade policies' of the United States' trading partners or by the practice of these same partners in undervaluing their currencies vis-a-vis the U.S. dollar.

Mr. Dahrendorf said the Commission's view was that the U.S. deficit situation was mainly the result of the policies pursued by the United States. He said that the Commission challenged the appropriateness as well as the legality of the trade measures taken by the United States in view of their consequence to the international trading community.

The Surtax

He declared that the 10 per cent surcharge was not in conformity with the GATT rules and that the Commission regretted that the United States found it necessary to link with its internal and monetary steps the imposition of a surcharge on imports.

He acknowledged a deterioration in the U.S. trade balance, but added that its relative and recent deterioration stemmed largely from causes such as numerous labor conflicts or threats of conflict in ports and in various sectors of the economy; the slowdown of economic expansion in external markets; the interplay of speculative factors connected with monetary uncertainties, and the threat of imposition of import-protective measures (including voluntary quota restraints) by foreign suppliers.

He said that the U.S. trade balance was no longer a primary factor in the overall balance of payments, but that factors such as net income from direct investments abroad or net outflows of capital to finance direct investments played a major role.

Mr. Dahrendorf said the Commission is convinced that the IMF's assessment of the situation will stress the various components of the American balance of payments problem. The Commission believes that in the light of the critical balance of payments situation, the temporary recourse to a surtax is not appropriate and should be substituted as soon as possible by other domestic measures which would remedy the real causes of the balance of payments deterioration.

He said that if the surtax were to be maintained beyond a very short term, this measure would be considered as evidence of a U.S. policy of "beggar thy neighbor." To avoid having the surcharge strengthen protectionism in the United States and elsewhere, and to prevent the surcharge from becoming a permanent element in the American tariff structure, he urged that it be revoked very soon. He said its maintenance would reverse the process of trade liberalization begun 20 years ago and which was strengthened by the Kennedy Round. Mr. Dahrendorf said the results of the Kennedy Round negotiations are in jeopardy now, just as the fifth and final phase of Kennedy Round cuts approaches. Thus, he said, it is essential that the de facto annulment of the U.S. concessions be suspended as soon as possible.

He said the Commission understood that the U.S. government intended to link the abolition of the surtax to the acceptance by the United States' trading partners of measures of a different nature. In this respect, he said the Commission firmly declared that such an approach would be totally unacceptable

for the Community and presumably also for the other trading partners of the United States.

Job Development Credit

In the package of announced U.S. measures, Mr. Dahrendorf criticized another step which, he said, was likely to hurt seriously the commercial interests of the U.S. trading partners and which was not compatible with the U.S. obligations under the GATT (Article III). He referred to the U.S. proposal to grant a ten per cent tax credit on the cost of new investments and to reserve the benefit of this exemption to equipment made in the USA. The measure, he said, would hurt a substantial part of Community exports to the United States. Because of the cumulative effect of the measure with the surtax, it would practically prohibit trade flows in this area. According to the GATT regulations, imported products should also benefit from investment tax credit. He said that if the discriminatory character of the proposal was not eliminated, such a measure by one of the great trading nations of the world would soon provoke other countries to take appropriate measures to safeguard their legitimate interests.

Domestic International Sales Corporation (DISC)

Mr. Dahrendorf said the Commission confirmed its point of view which has already been expressed on previous occasions concerning the deferred payment of direct taxes on the export activities of firms enjoying DISC status. He said the Commission regarded it as, in fact, a pure export subsidy in the form of a direct tax exemption for an undetermined period and, therefore, incompatible with U.S. obligations in the framework of the GATT. The Commission, he declared, challenged the argument of the U.S. Government that the measure was needed to place U.S. exports on equal fiscal terms with their foreign competitors. Such fiscal advantages, he maintained, do not exist within the Community. He said the step would surely touch off similar measures in other countries.

Conclusion

In conclusion the Commission, he said, reiterates its conviction that the U.S. measures in the commercial field were not appropriate remedies to the serious difficulties confronting the U.S. government. He repeated that the Community does not accept the alleged causes of these difficulties nor accusations expressed by certain spokesmen of the U.S. government against trading partners of the United States.

The Commission declares itself concerned because of the protectionist and mercantilist accents of declarations by U.S. authorities made at the occasion of the announcement of President Nixon's New Economic Policy. Yet the Commission counts on the United States' awareness of international responsibility to revoke the trade measures already taken and to abstain from proposed measures which are incompatible with the GATT. Mr. Dahrendorf said the Commission reserves the right, with reference to the General Agreement and in particular with reference to the dispositions of Article XXIII, to respond. The Commission believes that all the measures taken by the United States must be examined without delay in a working party of the GATT that should present a report before the end of September.

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