A
Letter From
EUROPE

From:
Roy Denman
Head of Delegation

A monthly update on the European Community
from its Delegation in Washington

No. 9
January 27, 1984

LET'S KEEP COOL AND KEEP TO THE RULES

I worked when young for a man who had a telling phrase and a keen sense of humour. When things would get desperate he had a tendency to cry "Let's stand back and let the dog see the rabbit."

A MAJOR US STEELMAKER HAS DEMANDED IMPORT RESTRAINTS

The relationship between the US and the European Community is entering what, with European understatement, one might call a mildly critical phase. A major US steel producer together with the US Steel Workers Union has just filed an escape clause petition that puts directly into jeopardy the Steel Arrangement painfully negotiated between the US and the EC. Another escape clause petition has been filed by the US footwear industry. The results of the investigations on both complaints are due to surface at the White House a few months before the 1984 elections. In addition, measures like the Wine Equity Bill sound fine but would enforce trade reciprocity in one particular sector and would thus be in conflict with international trading rules (the General Agreement on Tariffs and Trade). Domestic content legislation is equally in conflict with GATT rules. Both of these measures could mean a lot of US exporters shooting themselves in the foot.

SOME PENDING BILLS WOULD CONFLICT WITH GATT

So how does the situation look "rabbitwise", as my old mentor would say?

SOME REASONS THE US AND EC MAY AVOID A COLLISON

Gloom is not total. There are some sound reasons for us not anticipating a head-on smash this year. The first, as EC Commission Vice-President Davignon observed during a recent visit to Washington, is a development not fully realized in this country: Europe is now travelling in the same direction as the US. After years of heavy welfare bills and subsidies European countries are looking again at this equation. Welfare is being cut. And on subsidies, whether to industry or agriculture, some tough decisions have been taken or are in the works. Steel subsidies--which under EC law must be approved by the EC Commission--since 1982 have not been permitted unless linked to capacity cuts. It is the EC's firm intention to abolish these subsidies entirely from the end of 1985. These have been difficult decisions. So are the decisions the Commission is now seeking from the EC Council of Ministers to cut the cost of the Common Agricultural Policy (CAP). In 1983 the EC spent $16 billion on agriculture, somewhat less than the US spent on farm price supports alone. But the bill is getting too expensive for us and we have drawn up proposals to rectify the situation. The US, too, is finding farming expensive. Whatever the litany of grievances we can recount against each other, these common trends in a gloomy winter offer a sign of spring and hope.

COMMON TRENDS ARE A SIGN OF HOPE

Another reason for optimism is the political will and the political relationship on both sides of the Atlantic. When Secretary Shultz and four of his colleagues sat down with EC Commission President Thorn and his colleagues in Brussels last December, it was an event which showed the importance both sides attached to the trading and political relationship across the Atlantic. Together the EC and the US in 1982 accounted for $90 billion worth of trade--about one-third of the world total. On the relationship across the Atlantic--whether the shutters ever come clanging down in a mad move of mutual retaliation--depends the future of the world trading system and the prosperity of the West. US and EC officials viewed this prospect soberly and carefully in December, with a due sense that what united us was much greater than what divided us. We did not achieve perfect and continuing harmony because in the real world that is simply not possible. But the meeting did mark a joint determination to limit areas of dispute and, in the main, to preserve peace across the Atlantic.

THE WEST'S PROSPERITY DEPENDS ON TRADE PEACE BETWEEN THE US AND EC

THE IMPORTANCE OF KEEPING COOL

And what this comes to in practice is keeping cool, always keeping in mind the big picture--the amount at stake between us--and operating according to international trading rules. These rules can be inconvenient and awkward, but they are the only rules we have. An example is the specialty steel case. The US imposed additional restrictions on specialty steel imports in July 1983. These hurt Community exports. We disagreed with the decision. But any government has to make its own decisions on these matters in light of its own political pressures. The EC did not shoot from the hip. We engaged in a discussion process provided for in the GATT. We sought compensation in terms of lower US tariffs on other EC products. The discussions were friendly and constructive, but to our best judgment did not result in an adequate compensation offer. And so we took countermeasures in terms of higher tariffs on some American exports--to a modest extent, fully in accordance with GATT rules and without hype or dramatization.

THE EC PLAYED BY THE RULES

THE US AND EC BOTH STAND TO GAIN

If we continue on this track through the various storms, if we can retain the political will to hang together rather than hanging separately, if we can bear in mind that we are both steering the same general course on subsidies, then we not only can avoid a smash. We can build a more secure and more prosperous West.

Roy Jenkins

WINDOW ON THE EUROPEAN COMMUNITY

EC TO COUNTER US IMPORT RESTRICTIONS ON SPECIALTY STEEL

The EC has announced it will impose import restrictions of its own to compensate itself for US trade curbs destined to cost EC specialty steel manufacturers millions of dollars in lost sales over the next few years. The EC said it would introduce import quotas and raise tariffs on certain US-made chemicals, plastics, sporting goods and alarm devices to counter US import controls designed to protect the American specialty steel industry from foreign competition. Specific products to be covered by the new EC restrictions include styrene, methanol, polyethylene, sporting guns, snow skis, and fire alarms. The US sold $130 million worth of these products to EC untries in 1982.

The EC's decision to impose countermeasures against the US came after US and EC negotiators deadlocked in efforts to find a formula whereby the EC would receive compensation for specialty steel sales losses stemming from import controls introduced by the US in July 1983. The EC said the countermeasures would remain in effect for the duration of the US trade curbs. The EC sold $160 million worth of specialty steel to the US in 1982, the year before the US import curbs were imposed.

COMMISSION PROPOSES VIRTUAL FREEZE IN EC FARM PRODUCT PRICES FOR 1984-85

European farmers will receive virtually no increase in the prices they get for their wares in the 1984-85 agricultural marketing year--if the EC Commission gets its way. This month the Commission unveiled a controversial proposal to crease EC farm prices by an average of only 0.8% for the coming season and to freeze support prices for surplus commodities--such as milk, grains and wine--at 1983-84 levels. While providing for a nominal price increase when expressed in European Currency Units (ECU), the Commission's proposed 1984-85 price package would actually mean an average 0.5% reduction in farm prices when translated into the national currencies of EC member countries. EC farmers received a modest 4.2% price increase last year.

The Commission said its decision to propose an unusually austere farm price package was dictated both by the need to discourage surplus production and to keep EC farm expenditures within bounds. Agricultural expenditures have put an increasing strain on the Community's budget in recent years. At present, legal constraints on EC revenues leave no room for growth in that budget.

The proposed farm package would need the approval of the EC's Council of Ministers before it could become law. The Commission has warned the Council, the EC's top decision-making body, that failure to act on the price package before the end of March would necessitate even more drastic steps to curb EC farm program outlays.

In another move designed as part of an overall farm policy reform package, the Commission asked the Council for authority to open negotiations aimed at stabilizing the EC's imports of corn gluten and other grain substitutes used for livestock feed. The Commission said these imports should be stabilized to keep them from undercutting EC efforts to effect urgently need reforms in its Common Agricultural Policy (CAP). EC imports of grain substitutes have skyrocketed in recent years. For example, corn gluten imports have mushroomed from 697,000 tons in 1974 to 3.4 million in 1982-83. The EC claims that unrestrained imports of these low-cost imported feed products have displaced both imported and domestic grain that would otherwise have been consumed by Europe's livestock industry. The EC has been forced to market this displaced grain abroad in competition with other grain exporters.

****

EC, EFTA BECOME WORLD'S LARGEST FREE TRADE ZONE FOR INDUSTRIAL GOODS

Free trade became the rule for most industrial goods sold within Western Europe as the advent of 1984 saw the elimination of virtually all remaining trade barriers between the EC and the countries of the European Free Trade Association (EFTA). With a few minor and temporary exceptions, customs duties on industrial goods traded between EC and EFTA countries were abolished as of January 1, 1984, thus creating the world's largest free trade zone for industrial products.

"We must congratulate ourselves on reaching this milestone," said EC Commission Vice President Wilhelm Haferkamp in a statement marking the occasion. "We have proved it is possible to work towards trade liberalization even in times of great economic difficulties," he said.

The disappearance of the last EC-EFTA customs duties marked the climax of Free Trade Agreements signed between the EC and the individual EFTA countries in the early 1970's. These agreements initially eliminated most import quotas between EC and EFTA members and set timetables for the elimination of import tariffs. The newly established European free trade zone comprises 312 million consumers, making it a bigger market than the US and Canada combined. In 1982 the EFTA countries--Austria, Iceland, Sweden, Switzerland, Norway, Finland and Portugal--accounted for about 20% of the EC's external trade.

SEARCH FOR SOLUTION TO EC FINANCIAL PROBLEMS CONTINUES INTO 1984

The search for a solution to the EC's increasingly serious budget problems was continued into 1984 after a summit meeting of EC leaders in Athens last month failed to make headway towards an agreement on how to revamp the Community's finances. At present the EC draws most of its revenues from value-added taxes (VAT) collected in EC Member States. Because EC rules place a strict limit on the proportion of these VAT collections the Community may claim as its own, the EC's budget has grown increasingly tight in recent years as the Community's expenditures have grown. Although the EC now finds itself in the throes of a cash crisis, Member States have balked at raising the present lid on EC revenues in the absence of an agreement on how the funds would be spent. Such an agreement has thus far remained elusive.

EC WARNS US THAT UNITARY TAXES COULD HAMPER INTERNATIONAL TRADE

The EC has warned that the "unitary" taxes imposed by some US states on subsidiaries of multinational corporations could become a serious impediment to international trade and investment. Under the unitary tax system, states tax subsidiaries of multinationals not on the subsidiary's own in-state profits, but rather according to a formula reflecting the worldwide sales or profits of the entire corporate group to which the subsidiary belongs. The EC told a Reagan Administration working group studying the issue that the unitary taxes imposed by some dozen US states could encourage other countries to implement similar tax systems to increase their tax take from foreign firms. In the long run this would hurt both US and foreign-based multinationals by seriously disturbing international trade and investment relationships. The EC also said the unitary tax system subjects corporations to the risk of being taxed twice for the same profits.