# A Letter From EUROPE

From:
Roy Denman
Head of Delegation

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

No. 15
July 30, 1984


## FREE TRADE IN DANGER

GREAT STRIDES

Some would say there is no such thing as free trade. Partly they would be right in the sense that free trade is like absolute zero in physics, a theoretical concept, not a real world phenomenon. Yet we must not forget the enormous strides towards free trade that have been made since 1947 under the aegis of the General Agreement on Tariffs and Trade (GATT). Between EC Member States and their partners in the European Free Trade Association, industrial goods tariffs, which in the 1950's ranged as high as 40 to 50%, have been eliminated. In 1982, the US and the EC traded $90 billion worth of goods, less than 2% of which were covered by import restrictions. Businessmen in our countries presently trade with a freedom which would have been undreamt of in the 1930's. And with this has come the biggest wave of prosperity in the history of the West.

TRADE REMEDIES

But all of this is now in danger. The US Congress now has before it more than 100 bills aimed at restricting imports of products ranging from steel to ginger roots. The US International Trade Commission, which has on its desk 121 petitions for import protection, has already ruled that US steel and copper producers have been hurt by imports and has proposed to the President such remedies as import quotas and tariffs.

One example of the proposals now in circulation is a bill that would limit steel imports to 15% of US production. Its sponsors are obviously waiting to see what action the President will take following the ITC recommendations. But any general limitation on steel imports would increase the price of steel. And this would produce cries for protection from a host of steel-using industries. If there is going to be a major reduction in US steel imports, it would be unrealistic to expect that other countries would not exercise their rights under GATT by taking countermeasures against American exports. The EC's position on the ITC steel recommendations is clear and simple. We are convinced that imports are not the major cause of injury to the US steel industry. To quote Mr. Rohatyn, the industry's own expert: "Imports are by no means the only cause of the steel industry's distress. Obsolete plants, insufficient and imprudent investment, weak management and high unit labor costs have all played a part in the history of the industry." Moreover, European exports cannot be held responsible for the US steel industry's misfortunes as they fell by 27% during 1983. This followed the agreement we signed with the US in 1982 by which we accepted voluntary limits on our exports as part of a comprehensive solution to US-EC steel trade problems. The US administration pledged to be fully cognisant of the implications of the arrangement in exercising its discretionary authority under section 201 of the US 1974 Trade Act. We are, therefore, confident that the arrangement will hold.

ONE EXAMPLE

Steel, of course, is only one example among many. There are proposals to freeze textile imports at 1983 levels. There is a bill to limit footwear imports to 50% of the domestic market. There is a Domestic Content Bill which would force foreign carmakers to use American parts in cars sold in the US. There is a Wine Equity Bill which, even in a revised version, still aims at enforcing sectorial reciprocity, thus going against the foundations of all post-war tariff negotiations. And the House has just passed a bill that would streamline trade remedy laws in a way not compatible with GATT.

AMERICAN EXPORTS

All these measures have one thing in common. They either conflict with international trading rules (which provide no justification for arbitrarily restricting imports to a percentage of home production) or they seek to rewrite these rules unilaterally. And all of these remedies will have one consequence. Where imports into the US are curtailed, it would be unreasonable to expect other countries to refrain from exercising their rights to countermeasures--in plain English, putting restrictions on American exports. One-fifth of US industrial production is exported, as is nearly half of food and agricultural production. So limits on American exports would mean a massive loss of jobs and wealth for the US economy.

That is why the US administration has taken a firm stand--which we very much welcome--against such measures as the Steel Quota Bill, Domestic Content and the Wine Equity Bill. For it would be a sad and fateful event if any of the major trading powers of the world were to embark on an unravelling of the one world trading system just when the world is emerging from the worst recession in half a century. Protectionist pressures across the world are severe, and decisions by elected governments will be tough. But as President Reagan said earlier this year, we are all in the same boat. And so we all need to stick as closely as we can to the declarations against protectionism endorsed at the Summits in Williamsburg last year and in London this year.

Roy Denman

# WINDOW ON THE EUROPEAN COMMUNITY

## DELORS TO HEAD EC COMMISSION

Former French Finance Minister Jacques Delors has been chosen to succeed Luxembourger Gaston Thorn as President of the EC Commission when Thorn's four-year term in office expires in January 1985. Delors' appointment was announced July 19 after his nomination received the approval of the governments of all 10 EC countries. Delors, who won wide respect for his handling of the French economy during a three and one-half year stint as Finance Minister that ended earlier this month, has long been active in EC affairs. In 1979 he was elected to the European Parliament where he served as Chairman of the Economic and Monetary Committee. During France's January-June 1984 Presidency of the Council of Ministers, the EC's top decision-making body, Delors played a dominant role in negotiations that led to the settlement of a budget crisis that had threatened to paralyze the Community.

Delors, 59, an economist and longtime advisor to French President Francois Mitterrand, was Minister for Economy and Finance in the Mitterrand government from 1981 to 1983 and Minister for Finance and Budget from March 1983 to July 1984. After working on the staff of Gaullist Prime Minister Jacques Chaban-Delmas from 1969 to 1972, he became a Member of the General Council of the Bank of France. From 1969 to 1973, he also served as Secretary General for Continuing Education. Joining the Socialist Party in 1974, he became a member of the party's Steering Committee and its delegate for international economic relations. Delors is married and has two children.

In announcing Delors' appointment, Thorn praised his successor as a "convinced European" noted for "his extensive knowledge of international economic and financial affairs."

The EC Commission, the Community's 14-member executive body, is responsible for the day-to-day management of Community business and for initiating all EC legislation. Although the Commission is a collegiate body, the President's role is an important one. His duties include chairing and preparing the agenda for Commission meetings, as well as serving as chief representative for the Commission's views.

## EUROPEAN PARLIAMENT ELECTS NEW PRESIDENT

Promising to rekindle the "European spirit", French Christian Democrat Pierre Pflimlin rode to a second-ballot victory over incumbent Dutch Socialist Pieter Dankert and Italian Independent Altiero Spinelli in his bid to become President of the newly elected European Parliament. Pflimlin, 77, a former Prime Minister of France and ex-mayor of the city of Strasbourg, came out on top in the first round of balloting but fell short of a clear majority. Pflimlin was first elected to the European Parliament in 1979.

## COMMISSION PROPOSES INCREASE IN TRADE CONCESSIONS TO THIRD WORLD COUNTRIES

The EC Commission this month proposed a 4.7% increase for 1985 in the overall value of Third World exports to be given preferential access to the EC market under the Community's Generalized System of Preferences (GSP). The proposed GSP package for next year would give the world's developing nations customs duties concessions worth about $633 million on their potential exports to the EC of roughly $14.3 billion in industrial and agricultural products. GSP is a scheme under which the world's industrialized countries grant unilateral trade concessions to their Third World counterparts as a means of spurring economic development in the world's poorer regions. The EC, the foremost GSP donor, regards the system as an important part of its development aid strategy and as an essential means of helping cash-starved developing nations generate export earnings.

The EC's GSP scheme gives Third World countries duty free access to the EC market for virtually all of their industrial products. However, a small percentage of these 1,800 products are considered "sensitive". Duty free access to EC markets for these sensitive products is limited either by quota or by somewhat less stringent "indicative ceilings". The EC also offers developing countries reduced customs duties on 390 of the agricultural products they export to the Community. These include such goods as canned pineapple, other tropical fruits and fruit juices, unmanufactured tobacco, soluble coffee and palm and coconut oils.

In its 1985 GSP package, the Commission proposed expanding the system by raising the duty free quotas on 130 sensitive industrial products by between 5% and 15% and by removing 12 other products from the sensitive list. It also proposed replacing the duty free quotas for 11 additional products with indicative ceilings.

In the agriculture sector, the Commission proposed expanding the GSP's preferential access to include a few new products. Also proposed were reductions in duties within the import quota for tobacco and a redistribution of all quotas for processed products to reflect more accurately actual trade flows between individual EC countries and developing nations. The Commission also suggested a modest increase in general import ceilings for textiles, considered a sensitive sector by both the developed and developing countries.

The proposed GSP measures for 1985 would need the approval of the EC's Council of Ministers before they could be implemented. The preferential market access developing countries receive under the Community's GSP scheme is in addition to the trade benefits the EC extends to 64 African, Caribbean and Pacific countries under terms of the Lome Convention.

## EC URGES ACTION TO COMBAT AUDIO-VISUAL PIRACY

The EC Commission has urged the EC's member countries to consider collective action against audio-visual piracy, the unauthorized copying of sound recordings, videotapes, film and computer software for commercial sale. Although the Commission noted that some member countries, notably the UK, had already imposed national measures to deter pirates, the Commission urged cooperation to ensure that A-V pirates find no safe haven within the Community's borders.

Because makers of illicit sound and video recordings incur far lower production costs than legitimate manufacturers, pirate recordings can be sold for less than the genuine article. However, the inferior quality of pirate recordings hurts consumers and damages the reputations of both performers and authorized producers.

Unless action is taken, the Commission said the problem of piracy is likely to grow as technical innovation and the increasing variety of audio-visual materials on the market makes the pirate's task easier. Already, in the early 1980's, receipts from record pirating alone have been estimated at $1.5 billion, about 15% of the legitimate industry's worldwide sales.

The Commission said it plans to consider what steps could be taken at the European Community level to combat A-V piracy. In the meantime, it urged EC states that have not already done so to ratify international conventions designed to make it easier to prosecute pirates and urged them to cooperate in preventing, detecting, and pursuing legal action against acts of audio-visual piracy.