

A Letter From EUROPE

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

WAS WILL ROGERS RIGHT? ARE AMERICANS GETTING A BUM RAP
FROM THE WORLD TRADING RULES?

No European can live long in this country without coming across the deeply-held belief that, as Will Rogers once claimed, "The United States never lost a war or won a conference". As the trade deficit rises there is a growing feeling in Congress that something evil out there is damaging American trade, and that in consequence the world trading rules - which the United States helped to negotiate and to which it has been a party for nearly forty years - have ceased to be helpful to US interests. Recently the cries of alarm have got louder. The call has gone out, as the old song puts it, "for madder music and stronger wine".

What are the facts?

The world trading rules are enshrined in an agreement now operating between some ninety countries known as the General Agreement on Tariffs and Trade (GATT). It came out of discussions at the end of the war on how to avoid the protectionism of the interwar period and the economic disasters it provoked. Without American support the GATT, which set out the rules for world trade and provided for successive negotiating rounds of trade liberalisation, could never have been set up or carried through. It was with American support, among others, that the major multilateral trade negotiations of the last three and a half decades have been carried out.

The effect of all this on world trade has been, in a word, dramatic. As trade barriers throughout the world crumbled, world trade soared. In 1982 in volume terms it was seven times what it was in 1950. This represented growth rates of 7.4 percent in the 1950's 9.3 percent in the 1960's and nearly 21 percent in the 1970's. This has meant a growth of prosperity without parallel in the history of the Western world.

But in all this, did the United States get a fair shake? Since the mid-19th Century, US foreign trade continued to grow, but remained, as it had since the Civil War, as a proportion of GNP not much more than 3-4 percent. But in the 1970's there was

a colossal expansion of the involvement of the United States in the world economy. Between 1970 and 1980 the value of US agricultural exports jumped from \$7 billion to \$41 billion, and the US share of the total volume of world agricultural exports rose from 25 to 39 percent. The US share of world exports of manufactures rose from 15 percent in 1978 to nearly 17 percent in 1983. By 1984 the proportion of GNP related to foreign trade was 12.5 percent and rising. Forty percent of American farmland is now devoted to exports. One-sixth of all jobs in the manufacturing sector depend on sales abroad. One-fifth of American industrial production is exported.

As a result of the GATT system, American exporters now have not only a degree of access to world markets, but also a security which would not have been thought possible in the 1930's. Last year trade between the United States and the European Community both ways totalled over \$100 billion. Not only was this trade low over tariffs (an average of 4-1/2 percent for industrial products) but the vast majority of it was "bound", meaning in GATT language that tariffs (many now at zero) cannot be increased by any action without compensation being negotiated.

Of course, trade is not made by international rules. This enormous increase in American exports was made possible by the hard work and the entrepreneurial skills of the American businessman and the American farmer. But in the bleak years between the two world wars, when world trade collapsed by one-third and the Smoot-Hawley Tariff on this side of the Atlantic and massive restrictions in Europe all strangled world trade, no amount of enterprise could have got much in the way of results.

And one point of perspective needs to be more borne in mind. The dramatic expansion of American exports in the 1970's was greatly helped by a weak dollar. Now a high dollar is boosting imports and damping exports, contributing to the distortion of the trade balance. But exchange fluctuations are as temporary as they are inescapable, and it makes little sense from any long-term point of view to welcome the world trading rules when a currency is weak and then curse them when the same currency is strong.

The fact is that the world trading rules set out in the GATT have been a real benefit to American prosperity. The rules are not perfect, nor are they cast in concrete. Some discreet and effective work is now going on in Geneva to see whether the necessary consensus can be developed which would make a new major round of multilateral negotiations possible. This could strengthen the GATT. And this is the road we all need to go down, rather than junking the rules in a fit of irritation. For, imperfect as they are, they are the only rules we have.

Roy Jernan

WINDOW ON THE EUROPEAN COMMUNITY

E.C. PROPOSES 1985 FARM PRICES

In line with its efforts to reform the E.C.'s Common Agricultural Policy and bring farm spending under control, the E.C. Commission has advanced proposals for unprecedented cuts in agricultural prices for the 1985-86 farm year. The proposed price package calls, in part, for cuts of 3.6 percent for most cereals and rapeseed (a major grain used for animal feed), cuts of 6 percent for citrus fruits and fresh tomatoes, a rise of 1.3 percent in sugar prices and the maintenance of most meat and wine prices.

While European farm groups are unhappy with the proposals, E.C. Agriculture Commissioner Frans Andriessen said the Commission is determined to bring Community prices closer to world prices and avoid the overspending that led to last year's financial crunch. The Commission is thus adopting market solutions to the farm-price problem while stressing the need to find solutions to the problem of agricultural overproduction.

The new proposals, which would result in an estimated \$14 billion in farm-support spending in 1985, are now under discussion by E.C. Agriculture Ministers and should come into effect by April 1, the start of the official farm year.

1984 ESPRIT PROJECTS AWARDED

Almost a year after getting its initial go-ahead, the E.C.'s 10-year information technology program, ESPRIT, is moving into full gear. The Commission announced in January the selection of 104 projects (chosen from 441 proposals) to launch the process of European-wide, coordinated research and development. The projects will receive E.C. funding of about \$126 million.

ESPRIT (European Strategic Program for Research and Development in Information Technology) is designed to promote Europe's high-tech industries, and to provide large-scale mobilization of workers, financing and market opportunities to encourage innovation in information technology.

Twenty-seven of the program's first research projects will focus on advanced microelectronics, 23 on office automation, 21 on advanced data processing, 19 on integrated production by computer and 14 on software engineering.

Each project has an average of slightly more than five corporate and institutional participants (which share the cost of the program with the E.C.), and a good geographic balance among the 548 contractors involved has been achieved. Both large and small industries are well represented. A small number of the projects will include affiliates of multinational corporations, including International Telephone and Telegraph Corp., Bell Telephone Manufacturing and International Business Machines Corp.

PRESIDENT REAGAN TO SPEAK AT EUROPEAN PARLIAMENT

President Ronald Reagan will address the European Parliament in Strasbourg, France, on May 8, the 40th anniversary of the end of World War II in Europe. Reagan will be the first U.S. President to address the Parliament, which is elected by citizens of the 10 E.C. member states.

The President will also meet with Jacques Delors, President of the E.C. Commission; and Giulio Andreotti, President of the E.C. Council of Ministers.

POLL FINDS EUROPEANS MORE OPTIMISTIC

"Europessimism" was in decline during the last months of 1984, according to a recent E.C. Commission poll. The "Eurobarometer" -- a twice-yearly survey of public opinion in the Community -- found "a feeling of less pessimism, and possibly even of reborn optimism," with a majority of people in all member states except the United Kingdom stating that E.C. membership was advantageous for their country.

A sizable majority of those polled also agreed that decisions should be made "by the body of the member states of the E.C." rather than by each country separately, a trend that Eurobarometer said indicated an increasing degree of "Europeanization" of choices. Fully 76 percent of those questioned were "very much in favor" of speeding up the process of European unification, and a majority accepted the idea of a "United States of Europe."

The poll also examined attitudes toward the European Parliament, finding that last June's elections had faded rather rapidly from people's minds. With variations from one country to another, most respondents attached "average importance" to the Parliament and said they would like to see it acquire a more important role in E.C. affairs.

E.C. DISPUTES U.S. TRADE ACT

The E.C. Commission has asked the General Agreement on Tariffs and Trade (GATT) to create a panel to examine certain provisions of the U.S. Trade and Tariff Act approved by Congress last October. The provisions in question extend the definition of an industry to allow producers of component products basic to an industry to join it in a trade complaint. In the case of the wine industry, this means grape growers

are now entitled to formally protest European wine imports that they believe are unfairly traded, even though they are not directly producing wine themselves.

This, the E.C. contends, is in clear contradiction to well-defined GATT rules stating that the product of an industry entitled to claim injury must be identical to the unfairly traded product. As grapes and wine are clearly different products, an anti-subsidy investigation against wine imports resulting from a complaint by grape growers would violate GATT law.

At the E.C.'s request, two special meetings on the problem have already taken place under GATT dispute-settlement procedures. The Commission requested the GATT panel after those meetings failed to produce a mutually acceptable solution.

E.I.B. LENDING UP 16% IN 1984

The European Investment Bank (E.I.B.), Europe's primary tool for long-range financing operations, recently released figures for 1984 indicating a strong and sustained expansion of activity. Overall lending rose 16 percent to about \$4.8 billion, with most of the financing going to projects within the E.C. Lending to the industrial sector was up 37 percent and particular support went to small- and medium-sized enterprises.

Loans to the energy sector were up 23 percent, and energy saving investment in particular made a good showing. Financing was arranged for various projects in all member states except the Netherlands, and was increased by 15 percent in Italy, 34 percent in France and 35 percent in the United Kingdom. The projects involved in the financing are estimated to have generated more than 44,000 permanent jobs throughout the Community.