

# A Letter From EUROPE

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from its Delegation in Washington

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## WHAT IS FAIR IN INTERNATIONAL TRADE?

Unfair trading practices are now the talk of the town. Let there be an end to unfair trading practices abroad! Let the law be enforced not just in this country but internationally! With this broad proposition many would agree. So did Hilaire Belloc in his Moral Alphabet.

N, he wrote, stands for Ned  
Who walking one way chose to look the other.  
A motor car with warning shout  
Ran right on top and turned him inside out.  
The damages that he obtained from these -  
maintained him all his life in cultured ease.

### MORAL

The law protects you. Go your gentle way.  
The other man has always got to pay.

But applied to international trade the situation becomes a bit more complex. International trade should be fair but fairness is often in the eye of the beholder. For example, many people in this country tend to think of the Common Agricultural Policy of the European Community as a fiendish and lavish invention designed to take the bread out of the mouth of American exporters of agricultural goods. Are the Europeans subsidising their agriculture like crazy? As the US Department of Agriculture recently confirmed, US subsidies are bigger (Federal expenditure this year just under \$17 billion, European Community just under \$15 billion). Effects of these on export markets? The US Administration have just announced the filing of a complaint under the GATT Subsidies Code against our wheat export subsidies. It is true that the US share of the world wheat market fell from 49 percent in 1981-82 to 37 percent in 1984-85. But the EC share moved only marginally during that period from 14 percent to 16 percent - and this at a cost of doubling our stocks. So the bulk of the lost US share has been taken by exporters other than the EC - and the decline has been caused by factors other than export subsidies.

Second a more general point. The good Lord did not ordain that sin only starts east of Cape Cod or west of Alaska. GATT panels have recommended action on our part in cases on canned fruit and citrus, and we are looking at these cases to see what we can do. In the case of a similar complaint on pasta we agreed in the summer to make a unilateral and substantial cut in our export refunds. But equally there have been cases where legitimate points can be raised with the American authorities.

(a) The Community is filing a trade complaint against subsidised US wheat sales made under the new "Export Enhancement Program."

(b) It took five years after a GATT panel had found against it for the United States to replace the Domestic International Sales Corporation (DISC), a device to delay and effectively remit taxes on US exports, with alternative legislation. In the meantime something like \$11 billion worth of subsidies were given to US exporters in a way not in accordance with the international trading rules and without any prospect of compensation to their trading partners.

(c) There is a ban on imports into the United States of books by American authors printed abroad. A panel found this incompatible with international agreements. No action has been taken by the US to remove the ban.

Third, whatever domestic legislation entitles one to do, what matters is what is compatible with international trading rules. Let me give two examples. Agricultural export subsidies are not prohibited by the international trading rules. The stipulation in the GATT is that they should not, however, be used to secure more than an equitable share of the world market. Similarly, the GATT Subsidies Code recognises that "subsidies are used by governments to promote important objectives of national policy." But there are provisions for consultation and possible action where it can be demonstrated that a subsidy is causing injury. Now it is always open to anyone to disagree with these provisions or to maintain that they are deficient. But in that case let us see whether we can amend them by mutual agreement. The new trade round now under discussion in Geneva - jointly supported by the United States and the Community - would give us that opportunity.

Fourth, reasonable and desirable though it is for us all to challenge unfair trade practices, it is necessary to get these in proportion. Paula Stern, Chairman of the International Trade Commission, recently calculated that less than 5 percent of last year's \$350 billion in imports would have been challenged if all the charges brought before the ITC last year had been sustained. Administration officials have estimated that at most 10 to 15 percent of the US trade deficit can be attributed to unfair trading practices.

I do not make these points in any quarrelsome or hostile way. The world owes an enormous amount to American support over the years of the one world trading system and to the leadership the United States provided in proposing and supporting some major trade negotiations. But we should all be quite clear that eliminating unfair trade practices is not simply a matter of making the foreigner pay. This is an area where we shall both have questions for each other. Let us work these out amicably as we have done since the General Agreement on Tariffs and Trade started after the Second World War. Let there be fair trade. But let there be fair trade at both ends of the street.

*Roy Roman*

# WINDOW ON THE EUROPEAN COMMUNITY

## CONFERENCE ON E.C. REFORM BEGINS

High-level talks on revitalizing the E.C.'s institutions and procedures opened on September 9, as E.C. foreign ministers began the first round of this autumn's Intergovernmental Conference in Luxembourg.

Agreed on last July at the E.C. summit in Milan, the Conference will take up the work of the Dooge Committee, which for the past year has been developing proposals on improving the Community's decision-making process and making its institutions more effective. Among the changes being considered are: creating a new political secretariat in Brussels; abolishing the rule that major decisions be taken only by unanimous vote; and enhancing the role of the European Parliament.

Other integrative measures, including the coordination of environmental policies, closer economic and monetary cooperation, and common policies in industry, health, education and new technologies will also be discussed over the course of the talks.

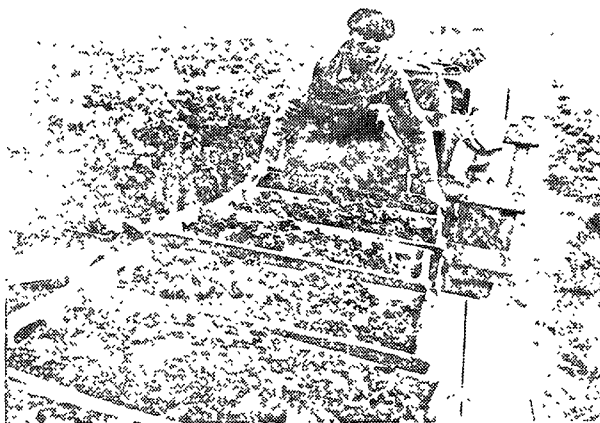
Calling the conference a "rare and exceptional event in the Community's history," Luxembourg's foreign minister and Conference chairman Jacques Poos noted that this was the first time since the founding of the Community 27 years ago that changes in the Treaty of Rome—the E.C.'s founding charter—had been discussed. "The aim of this conference is the relaunching of Europe by equipping it with second-generation policies for the challenges ahead," Poos said.

The first session of the Conference successfully established a basis for participation by the European Parliament, and set a timetable for further meetings between now and the E.C. sum-

mit meeting on December 2, when the ministers will present detailed proposals for strengthening the Community.

## E.C. OPPOSES U.S. GRAPE GROWERS' PETITIONS

American grape growers, claiming substantial losses due to low cost wine imports from the E.C., have filed petitions



asking the U.S. Department of Commerce and the International Trade Commission to impose duties on French, Italian and German table wines. The E.C. said in September it would oppose the complaints.

The Grape Growers Alliance for Fair Trade filed its petitions under provisions of the U.S. Trade and Tariff Act of 1984 that the E.C. believes clearly violate U.S. obligations under international trading agreements. U.S. law was recently revised to allow producers of a raw material—in this case grapes—to file trade complaints against imported finished products. The revised provisions of the law, however, violate the codes on subsidies and antidumping in the General Agreement on Tariffs and Trade (GATT).

"If these petitions were to lead to the adoption of protective measures under conditions inconsistent with GATT rules,

this would be in contradiction with the overall objectives of impending trade negotiations," the E.C. Commissioner responsible for trade policy, Willy De Clercq, said recently. "It would also lead to a serious deterioration of our agricultural trade relations, bearing in mind that wine is the E.C.'s largest agricultural export item to the U.S., and that our overall agricultural trade is characterized by a \$3.6-billion imbalance in favor of the United States."

will be responsible to the institutions of the Community for all aspects of the U.S.-E.C. relationship. Middendorf, who was sworn in last July, was previously the U.S. Permanent Representative to the Organization of American States, a post he has held since 1981.

Following a long career in investment banking, Middendorf entered government service in 1969 when he became Ambassador to the Netherlands. From 1973 to 1977 he served as Secretary of the Navy, after which he returned to private business as president of Financial Bankshares, Inc. Middendorf is the author of numerous articles, a frequent lecturer on international security and economic issues and a member of several national and international organizations concerned with defense, trade and monetary questions.

## U.S. E.C. OPEN STEEL NEGOTIATIONS

Negotiations on extending the 1982 U.S.-E.C. agreement on certain carbon and alloy steel products opened in Washington last month, and will continue through October. Talks on the future of the 1982 accord, which expires at the end of this year, are focusing on both the duration and scope of continued restrictions on European steel exports to the United States.

The 1982 agreement has held E.C. exports of 10 steel product categories (which, from 1982 through 1984, accounted for approximately two-thirds of E.C. steel exports to the United States) to about 5.4 percent of the U.S. market, and shorter term agreements were signed this past year limiting exports of certain other steel products not covered under the 1982 pact. U.S. negotiators are aiming now for a more compre-

The E.C. has already challenged the new legislation in the GATT, which has agreed to set up a panel under its dispute settlement procedure. It also rejects the allegations by the Grape Growers Alliance that E.C. producers dump and that the E.C. unfairly subsidizes wine. E.C. wine policy is designed to maintain market stability by withdrawing, through storage and distillation, excess wine from the market—measures that neither depress prices nor lead to an increase in exports. The E.C. does not provide refunds for exports of wine to North America.

## NEW U.S. AMBASSADOR TO THE E.C.

Ambassador J. William Middendorf II has assumed his position as Head of the U.S. Mission to the E.C., where he

hensive agreement that will cover not only the original ten product categories, but also stainless steel, pipes and tubes, semi-finished goods and so-called "consultation products," and are calling for further reductions in the European share of the American market in all steel categories.

U.S. negotiators also want to see the 1982 agreement extended for four years, to make it coincide with the five-year agreements signed this past year with other exporting countries under President Reagan's steel import program. E.C. negotiators point out that a four year extension would put the Community under a total of seven years of constraint, two years more than competitor countries such as Japan and Brazil. The Community believes a two year extension—bringing the total E.C. restraint period to five years—would be more equitable, especially as reduced European exports have allowed other countries to increase their U.S. market share and replace European steel over the past several years.

## **E.C. INCREASES WHEAT EXPORT REFUNDS**

Heightening competition for world agriculture markets is heating up trade tensions between the U.S. and the E.C. again. Responding to a recent American sale of 500,000 tons of subsidized wheat to Egypt at prices well below that of the world market, the E.C. announced on September 19 that it would increase its own refunds for wheat exports to the Mediterranean region, in an effort to protect its interests in what have traditionally been European markets.

The Commission said it regretted the transactions under the new U.S. Export Enhancement Program, which it believes will depress world market prices. The E.C.'s export refunds were increased by about 30 percent (from 41 ECUs, or \$31.57, to 55 ECUs, or \$42.35, per metric ton).

## **E.C. EXTENDS BAN ON SEALSKIN IMPORTS**

The E.C. Council of Ministers agreed in late September to continue the Community's ban on imports of baby sealskins and products derived from them for at least four years, after which it could, on a majority vote, extend the ban further.

The sealskin import ban was first introduced in October 1983 for a two-year period. The extension takes effect immediately.

## **E.C. ADOPTS MEASURES ON SOUTH AFRICA**

Stepping up their pressure on South Africa to abandon its apartheid system of racial separation, the Ten E.C. member states and future members Spain and Portugal agreed unanimously in September to impose a series of restrictive measures against Pretoria, including a ban on arms trade, the recall of military attaches, a freeze on official sports contacts, and an end to oil exports.

Foreign Ministers of the Twelve also decided on a number of positive measures, such as strengthening the E.C.'s Code of Conduct for companies doing business in South Africa and establishing programs to help nonviolent anti-apartheid organizations which assist the education of the nonwhite community. They also agreed to intensify political, cultural, scientific and business contacts with the nonwhite community.

The decision to impose restrictions came after a mission to South Africa in late August by Willy De Clercq, the E.C. Commissioner responsible for external relations, and the Foreign Ministers of Italy, Luxembourg and the Netherlands. The European delegation expressed to South African authorities the Community's strong opposition to apartheid. The group called for the immediate release of Nelson Mandela

and other political prisoners, an end to detention without trial and forced relocation, a commitment by the South African Government to dismantle its discriminatory legislation, and real negotiations with the true representatives of the South African people, including those in prison.

"There is an urgent need for the South African Government finally to take measures of the kind called for by the European delegation," the Foreign Ministers noted, "in order to create a new political climate by opening up a prospect of profound, peaceful change." The possibility of further measures, including economic sanctions, remains open, the E.C. emphasised.

## **FORD LOSES ANTITRUST APPEAL**

In a ruling that reinforces the European consumer's right to buy a car anywhere in the E.C. at the lowest possible price, the European Court of Justice rejected on September 17 an appeal by Ford Werke AG, the German subsidiary of Ford Motor Company, over an antitrust dispute with the Commission.

The Court upheld a 1983 decision by the Commission that Ford AG's refusal to supply right-hand drive cars in the Federal Republic of Germany violated E.C. competition rules. Ford had begun a policy in 1982 of refusing to sell the British-style cars in Germany, due to the growing number of U.K. buyers who were flocking there to take advantage of considerably lower prices. Concerned over dwindling sales in the U.K., Ford told its German dealers that all further orders for right-hand drive cars would have to be made from dealers in the U.K. or from a subsidiary of Ford Britain.

The European consumers union BEUC objected immediately, and the Commission quickly began taking steps to force Ford to continue supplying the right-hand drive cars to German dealers. In November

1983, the Commission reached a final decision that Ford's action was in breach of Article 85(1) of the Treaty of Rome, a decision that Ford appealed in January 1984.

The E.C. Commissioner responsible for competition, Peter Sutherland, welcomed the Court's action, saying "this is a significant decision which is fully in line with the Commission's determination to create a truly open internal market throughout the E.C. It supports the Commission's policy that manufacturers should not be permitted to put artificial barriers in the way of free trade between different parts of the Community. Consumers will thus have a greater choice to buy cars and other goods. I intend to explore the possibilities for further action by the Commission to ensure a freer market in cars."

## **E.C. THREATENS LEGAL ACTION ON AIRLINE REFORM**

In an effort to speed up reform of the Community's air transport system, the E.C. Commission is threatening legal action against the "cartel-like arrangements" some E.C. Governments and airlines have used to block the introduction of lower fares.

In recent remarks to the press, E.C. Commissioner Stanley Clinton Davis, who is responsible for transportation, underscored the Commission's determination to bring about changes in the present system as soon as possible. If no progress is made by June 1986, the Commissioner warned, "we shall have no option but to use other weapons"—including legal action in the European Court of Justice. "We can either work quickly to bring about change through balanced political negotiations," Clinton Davis said, "or the industry and Governments can stall and then we shall be compelled to deregulate in a piecemeal and unpredictable way through Court procedures."