

A *Letter From* EUROPE

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from its Delegation in Washington

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TRADE LEGISLATION:

IS THE UNITED STATES GOING TO SHOOT ITSELF IN THE FOOT?

The Congress of the United States is now considering in a House-Senate conference trade legislation which could be enacted before the end of this year. It is, of course, not for foreigners to determine the legislation of the United States, which can only be decided by the Congress and the President. But foreigners have interests, so let me spell out the Community's concerns.

We are worried that some of the provisions in the bills before the conference could cause a disruption in world-wide trade. The European Community's stake is considerable. First, the 12-nation E.C. is the United States' biggest trading partner, accounting for \$53 billion worth of U.S. exports in 1986 (compared with \$45 billion to Canada and \$27 billion to Japan). Second, the E.C. - with 20 percent of world trade - and the United States - with some 14 percent - are the biggest actors on the world trading stage. Thus we both have a major responsibility for the preservation of the one-world trading system set up under the auspices of the General Agreement on Tariffs and Trade (GATT).

The GATT is nowadays much attacked. But since the late 1940s it has meant a massive reduction in trade barriers across the world - industrial tariffs in the main industrialized countries have come down from something like 40 percent to an average just under 5 percent, and comprehensive rules have been set in such areas as subsidies and dumping. Has this meant anything to American businessmen? The answer unquestionably is yes. Between the early 1950s and the early 1980s, world trade in volume terms expanded by a factor of seven, U.S. exports by a factor of five. The boom in U.S. exports played a major role in the three-fold rise in real terms of American national income between 1940 and the present day.

But all of this is now threatened. The United States has been running a major trade deficit since 1982. Understandably, the cry has gone up: "Reduce the trade deficit!" Two illusions are widespread. The first is that a trade deficit can be dealt with by legislation. This is dangerous. A trade deficit is a product of macroeconomic factors (in the case of the United States, a large budget deficit), the exchange rate (now considerably changed, but it will take time to show) and the competitiveness of domestic industry. All legislation can do for any country - and the United States is not the only one in recent years to have faced this temptation - is to bash imports. But the resultant

retaliation against U.S. products abroad would simply cost the United States jobs.

The second illusion is that only if a two-by-four is taken to errant foreigners and their unfair trading practices abolished will the trade deficit disappear. This is one of the approaches in the trade bills now being considered in the House-Senate conference. But even some of the proponents of this course concede that (at most) \$10 billion or \$20 billion might be lopped off a U.S. trade deficit which this year will be in the region of \$150 billion. This view also assumes that the United States does not have any barriers to imports. However, we circulated a list of some 30 of these earlier this year. Unfair trading practices are not limited to west of Alaska and east of Cape Cod, and if the United States unilaterally demands the reduction of foreign practices, it will have to be prepared to accept the lowering of its own barriers.

Other provisions in the trade bills now under consideration cover unilateral action in defiance of internationally agreed rules, restrictions on foreign investment, requirement of reciprocity sector-by-sector, new limitations on U.S. trade negotiating authority and new limitations on the President's discretion in trade cases. If provisions on these lines were to be enacted in new trade legislation now possible by the end of the year, we see two main consequences.

The first would be that the current round of trade negotiations - the Uruguay Round - which the United States has done much to support would effectively be torpedoed. Who would want to continue with a major negotiation to improve and expand the trading rules if a major contracting party declared its intention not to abide by the existing ones? And who would wish to continue serious negotiations if the U.S. negotiators were hamstrung by limits on their authority to enter into trade agreements and could not ensure prompt consideration by Congress of the results?

The second would be certain retaliation or the enactment of mirror legislation by others - in some cases, encouraging existing European protectionist pressures which we have so far been able to contain. Would the United States welcome it if the E.C. were to insist on reciprocity on, say, wool textiles (where the U.S. tariffs are substantially higher than ours) and threaten retaliation if no U.S. concessions were made? The result of such actions would be a major disruption of world trade and a blow to the prosperity of all trading partners.

Ray Jerman

WINDOW ON THE EUROPEAN COMMUNITY

FOREIGN AFFAIRS

• **E.P. President Meets with Reagan:** Lord Plumb, the President of the European Parliament, met with President Ronald Reagan and other U.S. officials on September 24. Lord Plumb congratulated the President on recent progress toward an INF agreement, which has been widely welcomed in Europe, and underlined the importance of the international trading system and the vital position of the United States and the European Community within it. He praised the Administration's efforts to work in the interest of free trade through the GATT and other parallel negotiations to improve world trading arrangements.

Lord Plumb also outlined his plans to convene a World Food Conference in Brussels next April, which will focus on the present world imbalance in supply and demand for food. The objective of the conference would be to reinforce the need for wide-ranging international undertakings between developed countries in food production and trade, and to represent further this need in the GATT negotiations.

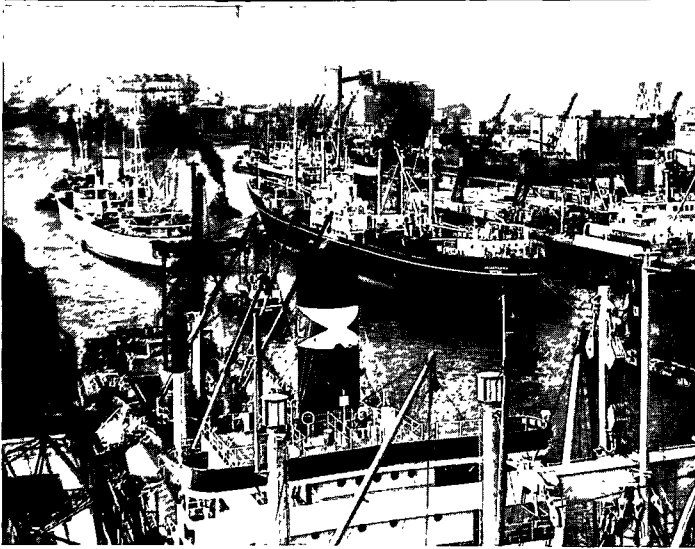
Also in September, a delegation from the European Parliament met with members of the U.S. Congress, Secretary of Defense Caspar Weinberger, Secretary of Agriculture Richard Lyng, World Bank President Barber Conable and other officials. The delegation, headed by Klaus Hänsch, met with Senate Majority Leader Robert Byrd and a delegation from the U.S. House of Representatives for talks on U.S.-E.C. trade issues, security and disarmament, and relations with Japan and the Pacific Basin.

• **Gulf Declaration:** The member states of the E.C. issued a joint declaration on September 3 exploring increased hostilities in the Persian Gulf and calling for an early ceasefire in the conflict between Iran and Iraq.

"The Twelve wholeheartedly support Resolution 598 of the [United Nations] Security Council and call for its early implementation in full," ran the E.C. statement. "The Twelve continue to support strongly the efforts of the

Secretary-General to that end. They condemn all acts contrary to this resolution and call on the parties to exercise the utmost restraint. Noting the positions of the two parties as expressed to date, they urgently call for a speedy acceptance of the ceasefire on

the means to reverse this situation. New regulations came into force on July 1 that seek to guarantee healthy competition within the Community, to enable it to fight against the unfair pricing practices and restrictive measures by third countries which hamper the activi-



New rules should bring more competition to European shipping.

land, sea and in the air. The Twelve strongly condemn recent attacks on merchant ships in the Gulf and reiterate their firm support of the fundamental principle of freedom on navigation, which is of the utmost importance to the whole international community."

• **E.P. Asks Rust Pardon:** The European Parliament called on the Soviet Union in September to grant a pardon to Matthias Rust, the German teenager who flew a small airplane into Moscow last May and was sentenced to four years in a Soviet labor camp. The Parliament noted that Rust had violated Soviet airspace and endangered lives, but asked for his pardon on humanitarian grounds. It also said that Rust's imprisonment "has a negative effect on relations between the Soviet Union and the European Community."

BUSINESS

• **European Shipping:** While numerous European shipping companies resort to flying flags of convenience, such as the Panamanian or the Liberian flags, and more than one company engaged in international trade makes use of tramp shipping, the E.C. is giving itself

ties of Community shippers.

The interest in Europe's merchant shipping shown by the Community's leaders is not due simply to a desire to see particular flags flying on the high seas. The fact is that the economic and social stakes are high: some 90 percent of the Community's external trade and 30 percent of its internal trade is carried in ships. In 1986 the merchant fleet of the Community's 11 maritime nations accounted for no more than 19 percent of world tonnage, down from 31 percent in 1975. It reached a peak in 1980, only to fall by some 40 percent since then. In 1986 alone, tonnage declined by more than 12 percent. This has meant fewer jobs in both shipping companies and shipyards, and has resulted in bankruptcies among ship-owners.

• **Sony Guarantee:** The Commission reported this summer that Sony Corporation, the Japanese electronics giant, would offer E.C.-wide guarantees on its products. The move, part of a campaign by the Commission to persuade more multinational corporations to offer guarantees on their products which are valid throughout the 12-nation Community, means European citizens will be protected

against defects even if they bought their Sony product in another E.C. member state.

E.C.-wide guarantees are seen by the Commission as a key part of the completion of Europe's internal market, scheduled for 1992. The Commission is reportedly ready to ask for similar guarantees from about 20 other multinational corporations, mostly suppliers of consumer products. While there are no specific Community regulations stipulating that all companies should offer such guarantees, almost all distribution networks must get special clearance from Article 85 of the Treaty of Rome, which forbids market sharing that is likely to distort competition. In the Sony case, the Commission demanded the E.C.-wide guarantee in exchange for granting the exemption.

• **Consumer Figures:** Recently released figures from Eurostat, the E.C. statistics office, show that Europeans spend less on rent and transportation than Americans, more on food and clothing, and about the same on leisure activities. Citizens of the E.C. spend 28 percent of their household income on rent, while Americans spend 32 percent; Europeans spend 25 percent on food, against the 19 percent Americans spend; 16 percent goes for transportation in Europe, while 19 percent goes for transportation in the United States; Europeans spend 8 percent of their income on clothes, while Americans spend only 7 percent; and on both sides of the Atlantic, about 23 percent goes to leisure activities.

• **Expanding the ECU:** The Commission said recently that it is stepping up its drive to promote the use of the European Currency Unit (ECU), and to see it used more widely in implementing the Community budget. The ECU is a "weighted basket" of E.C. currencies, used as the Community's accounting unit, and is increasingly coming into broader private use. The Commission is proposing that the Community's financial claims and commitments be denominated in ECU, and has instructed its departments to use the currency unit both in denominating and settling transactions. These decisions reflect the Commission's determination to ensure that the ECU is actually used whenever present rules

allow, and that proposals are made to extend its use to sectors where this is not yet possible. The Commission's objective is to eventually see all the Community's claims and commitments denominated in ECU instead of in national currencies—as almost all of them are at present.

FOREIGN TRADE

• **Pasta Dispute Resolved:** The E.C. and the United States resolved a dispute over exports of pasta to the United States in early August, in a move that E.C. Commissioner Willy De Clercq called "a victory for common sense." The E.C. agreed to a 27.5 percent cut in the subsidies paid to pasta producers to compensate them for the higher price of European wheat. U.S. negotiators had originally asked for a 35-percent cut. The E.C. also agreed to ensure that half of European pasta exports to the United States under a system known as "inward processing relief." Under the system, the E.C. imports a primary product—in this case durum wheat, almost exclusively from North America—without applying import levies. Exports that are processed from the primary product do not receive export refunds.

The E.C. Commission noted that the arrangement removes one of the many threats hanging over the multilateral trading system, saying, "Disagreement followed by retaliatory measures and countermeasures which might have escalated out of control would have struck a serious blow to the prospects for the Uruguay Round and fuelled the many protectionist trends, particularly in the United States."

SOCIAL ISSUES

• **E.C. Fight on AIDS:** The European Commission recently approved funds for a program to combat Acquired Immune Deficiency Syndrome (AIDS) in the developing world. The project will distribute about \$39 million in technical, financial and scientific assistance over the next three years, and will help coordinate aid given by the individual E.C. member states. The recipient countries are those in the African, Caribbean and Pacific (ACP) areas linked to the E.C. through the trade and assistance agreement known as the Lomé Convention.

"The problem of AIDS is a major

public health concern in every continent in the world, both in the developed and in the developing nations," said the E.C. Council of Ministers in a statement. "The situation in the developing countries is all the more alarming in that they lack the technical and financial resources to undertake preventive measures."

The decision to increase aid to the ACP countries gained momentum last February, when the Commission recommended that an intervention program be established. "The prime objective of such a program will be to support governments who ask for help in stepping up primary prevention of AIDS by implementing public health campaigns, and by setting up public information and health education campaigns," it explained.



Unemployment among European women seems to be levelling off, according to E.C. figures.

• **Female Unemployment Steady:** Unemployment among women in the European Community may finally have levelled off after rising for the past four years, according to figures released by the European Community's statistical office. Eurostat said that the seasonally-adjusted total of women out of work fell in both April and May this year—the first such fall since July 1983. The figure for May of 7.2 million was still higher

European Affairs, a new quarterly journal on European political, economic and security issues, has been launched by the Dutch publisher Elsevier. For a sample issue, write to:
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2100 M Street NW
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than the total of 7 million in May of 1986, however.

The drop was mainly due to young women finding work, Eurostat said. It noted that the number of jobless women under the age of 25 fell by 2.9 percent over the 12-month period, without allowing for seasonal variations. The total number of registered unemployed stood at 15.6 million at the end of May—2.9 percent fewer than in April and 0.6 percent lower than in May 1986. The number generally falls in the summer months because many people find seasonal work outdoors.

• **Help for the Handicapped:** One European in ten is physically, mentally, or psychologically handicapped, and the Commission recently proposed a new five-year Community action program designed to aid their integration into mainstream society. The new plan has three main aspects: political initiatives for social and economic integration of the handicapped; technical cooperation between member states to encourage innovative solutions; and Community-wide information systems, like the "Handynet Project"—a multi-lingual, computerized database on disability questions—that will become operational next January.

The program also suggests spending about \$600,000 during the first year toward integrating handicapped students into ordinary schools. The Commission believes that E.C. member states should also share information on the relationship between special schools and the general educational system, teacher training and parent cooperation, the development of syllabi and teaching methods, and the study of physical and social barriers to the integration of disabled people.

ENVIRONMENT

• **Pollution at Sea:** The E.C. Commission has established a Community task force to deal with major pollution incidents at sea, such as shipwrecks and collisions, Commissioner Stanley Clinton Davis announced in September. Several dozen government experts and private consultants will be on call around the clock to give immediate advice on dealing with the pollution effects of shipwrecks and go straight to the scene, if necessary.

"The establishment of this task force will give the Community the capacity to react at once," said

Clinton Davis, who is responsible for E.C. environment policy. "We will be able to call on the special expertise needed, whether on the recovery of spilled oil, use of dispersants, cleaning of the shoreline, remote sensing from the air or dealing with chemical pollution."

• **CFC Protocol Welcomed:** The international agreement on limiting chlorofluorocarbons (CFCs) signed in Montreal on September 6 was welcomed by the E.C. Commission. Stanley Clinton Davis, who is responsible for the Community's environment policy, noted that "production of CFCs at existing levels threatens significant changes in the environment of this planet, with incalculable consequences for mankind and the environment. This agreement will do much to avert this potential risk."

The protocol calls for a freeze in production of CFCs to be followed by a 20 percent cut in 1994 and a further 30 percent cut in 1999. "The Community can take justified pride in the coherent and positive way that it has contributed to this negotiation," said Clinton Davis. "It has been a clear demonstration of the influence for good that Europe can exert when it acts together."

• **Clean Car Standards:** E.C. Environment Ministers recently acted to cut pollution from cars by adopting a compromise on limiting toxic exhaust emissions. Under the new regulations, newly-designed cars with an engine capacity over 2000 cc will have to be fitted with a catalytic converter beginning in October 1988. Car producers will have to fit the same clean exhaust device to all new cars of existing models by October 1989. Some environment experts do not regard the new rules as sufficiently tough, saying that the rules do not apply to smaller cars, which comprise 60 percent of all cars registered in the European Community.

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