

A Letter From EUROPE

From:
Roy Denman
Head of Delegation

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from its Delegation in Washington

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PROTECTIONISM AND THE STOCK MARKET CRISIS

Black Monday on October 19 on Wall Street did several things. First, it sent a loud and clear signal of alarm in the financial markets at the twin deficits of the United States - the budget deficit and the trade deficit. A national debt in 1980 of \$900 billion accumulated over two centuries had risen in 1987 to \$2.4 trillion. These massive budget deficits were accompanied by a tightening of credit by the Federal Reserve to fight inflation. The result was high interest rates, which in turn drew money from all over the world, pushed up the dollar's value and created massive trade deficits. The U.S. trade deficit more than quadrupled, from \$36 billion in 1980 to nearly \$160 billion in 1986. It had been hoped that the decline in the dollar would deal with the trade deficit. But the August trade figures showed the deficit still alarmingly high. The signal a few days later on October 19 was that deficits of this magnitude were no longer sustainable. And the record trade deficit for October announced today showed that the problem is not going away.

The second thing October 19 did was to make it clear to all what the financial world had known for some years: that we are now living in a global economy. In New York, the stock market closes at 4 p.m.; at 7 p.m. Tokyo opens. Tokyo closes at 1 a.m. (New York time); Hong Kong and Singapore go on somewhat longer. At 7 a.m. London opens. The result is seen in the immediate effect the Wall Street crash had on other financial markets. Between October 14 and November 19, the drop in key indices was 20.4 percent in New York, but 31.6 percent in Frankfurt and 29.7 percent in London. In other words, no country - even one as large as the United States - can ignore the global economy. The third result is linked to the second. As Bill Brock (former Secretary of Labor) recently pointed out - and got a fair degree of support - for the United States to enact protectionist trade legislation now would be as damaging as the Hawley Smoot legislation of 1930.

How serious are protectionist tendencies in the United States? Protectionism is a danger periodically in every country. The United States has no monopoly. But there have been strong protectionist pressures over the last year or so, partly because of the trade deficit and the rising tide of imports, and partly because of a deep-rooted feeling among many in Congress that if foreigners were to abolish their unfair trading practices, the

American trade deficit would be removed. These concerns are mirrored in the trade bills now before Congress.

As we constantly point out, for any country to think it can deal with a trade deficit by legislation is an illusion. A trade deficit results from a combination of the exchange rate, macro-economic policy at home and abroad and the competitiveness of domestic industries. In the case of the United States, the dollar has fallen substantially. Steps are being taken to deal with the budget deficit and there is evidence that U.S. goods have become more competitive. The trade deficit has already begun to shrink in terms of volume, but it has been slow to fall in terms of value. Indeed, the October figures show a record deficit. Several reasons are responsible: the well-known delayed effect of devaluation (the "J curve"), the fact that the dollar has not fallen substantially against the currencies of many competitors, an appetite developed by the U.S. consumer for foreign goods and the fact that foreign suppliers have shaved their profit margins in order to keep that market share. But to enact legislation next year that would, for example, mandate action against foreign trade practices at the drop of a hat would simply result in retaliation by others, a major disruption of world trade and a very real threat to the current Uruguay Round of trade negotiations which the United States did so much to support.

Commissioner Willy De Clercq came to Washington in July of this year to put our concerns fairly and squarely to the Administration and leading Members of Congress. And in September he followed this up with a letter to U.S. Trade Representative Clayton Yeutter, with copies being sent to some 150 Members of Congress. We hope our representations have had some effect. The President has said that he will veto a protectionist bill, and Speaker of the House Jim Wright has announced that the bill is unlikely to go to the President before February of next year. Let us hope that with the action now being taken to deal with the budget deficit and the effect which the fall in the dollar must in time have on the trade balance, that protectionist pressures will ease. But, however this plays, October 19 was a timely reminder for us all of the dangers of embarking on the protectionism of the 1930s.

Ray Farman

WINDOW ON THE EUROPEAN COMMUNITY

EUROPEAN POLITICS

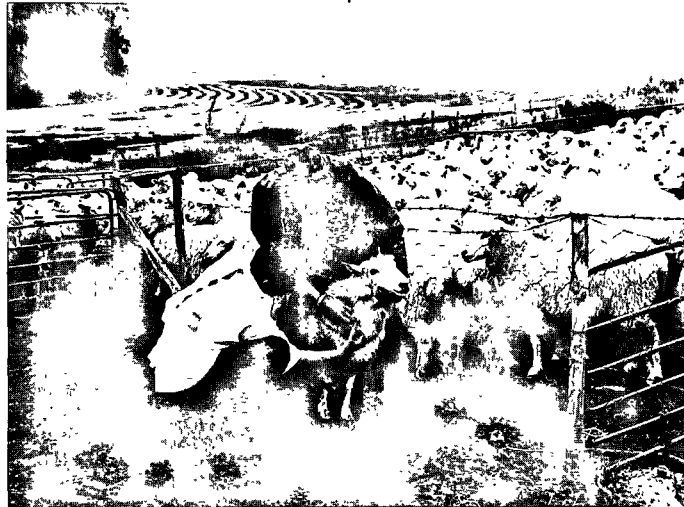
• **E.C. Summit Meeting:** European Community leaders at a December 4-5 summit meeting in Copenhagen praised the U.S.-Soviet agreement to eliminate intermediate-range nuclear missiles in Europe, calling it a "milestone" that should give impetus to other arms control negotiations. The 12 Heads of State and Government also issued joint declarations on the Middle East and the War in Afghanistan. They did not, however, reach agreement on a package of E.C. financial reforms, including proposals to trim spending on agriculture. They will resume discussions on those issues at an emergency summit meeting on February 11-12 in Brussels.

In its declaration on East-West relations, the E.C. Council said that it considered the U.S.-Soviet agreement to be essential in giving further impetus to "substantive progress in the whole range of present and future bilateral U.S.-Soviet and multilateral negotiations on arms control and disarmament." The leaders also said they would "continue to seek through the European Conference on Security and Cooperation (CSCE) process more secure and more cooperative relations between the participating states."

In their declaration on the Middle East, the 12 said they deplored the continuing absence of resolution of the crises in the region. They also expressed their "profound concern about the continuation of the war between Iran and Iraq" and reiterated their "firm and whole-hearted support for Security Council Resolution 598 as the means to bring an end to this armed conflict... Continued non-compliance with this mandatory resolution is not acceptable to the world community and the appropriate action should now be taken to enforce its implementation by means of a follow-up resolution."

In its declaration on Afghanistan, the 12 noted that they "pay tribute to the Afghan people's spirit of independence," and acknowledged the courage of the people of Pakistan, "which has suffered so much as a result of this conflict." They noted that the Soviet leaders have announced their intention to find a political solution

in Afghanistan, and said they believed that there should now be an urgent impetus in the peace negotiations. They called on the Soviet Union to withdraw all its troops by a date in 1988 according to a fixed timetable; to agree to the establishment of a transitional government, whose independence could not be contested, to make preparations for a new constitution and a genuine act of self-determination; and recognize that the participation of the Afghan resistance is essential to a comprehensive political settlement."



A ban on the use of hormones in beef and sheep destined for human consumption has been delayed for one year.

FOREIGN TRADE

• **Meat Ban Delayed:** In a move that has temporarily defused a potential U.S.-E.C. trade dispute, E.C. Agriculture Ministers agreed on November 18 to delay for one year a proposed ban on sales of meat treated with hormones. The ban means that use of growth-promoting hormones will be banned as of January 1, 1988, although sales of imported meat containing hormones will be allowed through next year.

• **Japanese Protection:** A dispute settlement panel in the world trade body GATT (General Agreement on Tariffs and Trade) concluded on November 11 that Japanese taxation on whiskies, brandies, liqueurs and other distilled spirits and wines discriminates against European imports. The panel had been examining a complaint brought by the European Community in February after several months of bilateral talks

between the Commission and Japan had failed to resolve the dispute. The Community, which believes it has a clear qualitative and competitive edge on the Japanese market for most spirits, had demanded the "total abolition" of the protectionist elements. In its decision, the GATT panel advised Japan to "bring its taxation system on these products in conformity with its obligations in the framework of GATT."

• **Oslo Delegation:** Commission Vice-President Willy De Clercq,

who is responsible for the Community's external trade policy, was in Oslo on November 9 to officially open the new E.C. delegation to Norway. The delegation is the first between the E.C. and any member state of the European Free Trade Association (EFTA).

• **GSP Plan Adopted:** The E.C. Council of Ministers adopted on November 17 the Community's Generalized System of Preferences (GSP) for 1988. The GSP will cover exports valued at some 24 billion ECU (about \$27 billion) from developing countries, and represents a reduction of about 900 million ECU in the form of customs duties. This preferential access to Community markets granted to developing countries is in addition to that granted in the framework of the Lomé Convention to the 66 member African, Caribbean and Pacific (ACP) countries.

The GSP accords access to all the products manufactured in the developing world which do not benefit from preferences on a con-

tractual basis, including sensitive sectors like textiles, shoes, steel and petrochemical products which are excluded, entirely or in part, by other countries granting preferential tariffs. In the agricultural sector, the Community is granting reductions on all import duties for close to 400 products, including canned pineapple, coffee, raw tobacco and palm and coconut oil, which have a particular importance for developing countries.

The E.C. considers preferential access to its markets to be an essential element in its development strategy for the world, particularly at a moment when the developing countries are especially affected by the weight of an enormous exterior debt, the drop in raw materials prices and the lessening of their advantage in the cost of labor.

BUSINESS & ECONOMICS

• **Job Creation:** Loans amounting to 8.5 billion ECU (about \$9.4 billion) in 1986 should lead to the creation of roughly 60,000 jobs, most of which will be concentrated in the areas of Europe worst-hit by unemployment, the E.C. Commission estimated in a recent report on the Community's borrowing and lending activities. The sums lent last year by the European Investment Bank, the Community's bank for long-term finance, accounted for about one-third of the total investments, and should lead to the creation of nearly 30,000 permanent jobs, including some 23,000 in industry. More than 80 percent of these would be created by small and medium-sized firms.

Other loans granted by the European Coal and Steel Community should lead to about 31,000 more jobs, the Commission claims, through retraining programs for miners and steelworkers who have been made redundant.

• **Renault Aid Probe:** The E.C. Commission said on November 3 that it had decided to examine French Government aid to the financially troubled car firm Renault, to see whether it contravened Community competition rules. It will be looking into a plan by Paris to write off \$2.1 billion of the company's debts as part of a process of transforming it from a

state agency into a normal commercial company.

Commissioner Peter Sutherland, who is responsible for competition policy, indicated that a number of aid measures in favor of Renault would be examined as a package, since they all have a direct bearing on the restructuring of the company. The Commission, which can order aid that breaches Community rules to be repaid, said that it considered the write-off as a state aid which confers a competitive advantage on Renault and which may distort intra-E.C. competition.

• **Inflation Moderate:** Prices rose by only 0.2 percent for the European Community as a whole in September, but inflation is picking up slightly in most member countries in relation to last year, according to the E.C. statistics office Eurostat. Prices declined in Germany and Belgium in September, rose slightly in Britain, France, Luxembourg and Portugal, and rose strongly in Greece, Spain, Italy, Denmark and the Netherlands.

Prices rose 3.2 percent in the E.C. over the 12 months to September. Eurostat sees this as a sign of stability, pointing out that for nearly a year and a half the inflation rate has ranged between 3 percent and 3.5 percent on a 12-month basis.

Prices are rising much faster in the Community's two main trading partners. Inflation is now running at 3.6 percent in the United States, and 1.3 percent in Japan.

• **Fighting Fraud:** The Commission has announced that it will be setting up a team of ten officials under the leadership of Commission President Jacques Delors to fight fraud within the European Community. A new administrative unit is to be set up to coordinate the work of existing anti-fraud cells in the various Commission departments and those to be set up in the departments without one at present.

• **Portugal Signs EMS Agreement:** The Bank of Portugal became a signatory on November 10 to the Agreement that lays down operating principles for the European Monetary System, or EMS. This means, among other things, that the Bank of Portugal will shortly transfer 20 percent of its gold and dollar reserves in exchange for European Currency Units (ECUs), which it can use if

needed. The escudo will participate in the exchange-rate mechanism at a later date, when the Portuguese and Community authorities consider that economic conditions permit such a move. It will also be possible for the escudo to be included in the ECU basket at a future five-year review of the composition of the ECU—possibly as soon as September 1989.

SCIENCE & TECHNOLOGY

• **High-Speed Train Study:** European transport ministers pushed forward plans for a Europe-wide high-speed train system in late October by ordering their rail companies to begin detailed studies on the project. Trains travelling some 125 miles per hour would move in the new system between Paris, Cologne, Brussels, Amsterdam and (through the proposed Channel Tunnel) London. Such a network could also give an important boost to the rail companies in their competition against road and air transportation.

• **Neurocomputing Program:** The Commission announced in November that it had chosen the first six research projects in a program known as BRAIN, or Basic Research in Adaptive Intelligence and Neurocomputing. The projects were chosen following recommendations from Europe's leading experts in the field, brought together in the Committee for the European Development of Science and Technology (CODEST), the body which advises the Commission on new trends in science. The projects have been allocated a total of some 990,000 European Currency Units (ECU), or about \$1.09 million.

The purpose of the BRAIN initiative is to support research collaboration aimed at a better understanding of how the brain works, and the design of machines capable of emulating some of its task-oriented problem-solving capacity. This implies finding ways to handle enormous and simultaneous information-processing capacity (which computers are beginning to possess) and to find ways of developing systems which are capable of active reasoning and learning from experience, like the human brain.

Neurocomputing is a form of artificial intelligence which uses computers with "neural architectures," internal structures designed to simulate the nervous

system. It is a multi-disciplinary field in which neurobiology joins forces with cognitive psychology, information science, materials science and computing science. BRAIN is part of the Community's "Stimulation Action" to ensure a timely and original contribution in this rapidly developing field, so that Europe starts from a position of strength in any future commercial opportunities emerging from neurocomputing.

• **Space Plans Adopted:** Members of the European Space Agency adopted a long-range plan on November 10 aimed at giving Europe "full autonomy" in space by the end of the century. The 13 ESA member states (plus Canada and Finland, with the E.C. Commission observing) decided to proceed with three key projects: the Columbus space module (part of the international space station to be launched in 1994); the Hermes reusable space shuttle; and the Ariane V rocket, which replaces the Ariane IV and is designed to put the Hermes shuttle into orbit. Funding for the three projects, which were approved over the objections of Britain, amounts to about \$11.6 billion.

SOCIAL ISSUES

• **Cultural Preservation:** The E.C. Commission is providing funds again this year to help restore and protect European monuments. Some 2.1 million European Currency Units (ECU), about \$2.3 million, is being allocated this year to safeguard 22 monuments located throughout the 12 E.C. member states.

The 22 monuments were chosen out of 130 applications to the Commission. They include a medieval monastery in Skelling, Ireland; the ramparts at Salonika, in Greece, some of which date back to ancient times; the 17th Century garden at Enghien, Belgium; and the Royal Salt Works at Arc-et-Senans, in France.

Only sites open to the public are eligible for Community aid. The Commission also insists that national, regional or local bodies meet part of the costs. The final selection of sites was made by the Commission with the help of an international group of experts.

• **Health Program Adopted:** Community Health Ministers approved on November 17 a major new five-year Medical and Health Research Program, half of which

will focus on the key problems of Acquired Immune Deficiency Syndrome (AIDS) and cancer.

As of September, the number of cases of AIDS in the Community stands at 7,762 and continues to double every nine months. While the Commission first warned of the dangers of AIDS in 1983 and began the first epidemiological studies in 1984, solutions to the problem "appear to be becoming more difficult as time passes," it noted in a recent statement.

The new program on cancer will allow the work done in Europe to be coordinated on a broad front, including research training, clinical treatment research, early detection and diagnosis, drug development and fundamental research. One of the program's first initiatives will be to establish 50 new post-doctoral research fellowships in the Community.

The program, which will receive total funding of some 65 million ECU (about \$72 million), is the fourth in a series that was launched in 1978. The first of these brought together 100 national teams in three joint research projects; the current program will involve up to 3,000 national teams in 70 different projects, and will allow the Commission for the first time to organize and run a program for medical and health research in Europe that will have real significance. About 25 percent of the health research carried out in Europe will be coordinated to some degree through the new program, making it a particularly cost-effective exercise for the Community.

Aside from the financial savings, there are medical advantages to be gained from coordinating research in this way, the Commission believes. The program should lead to research based on a much larger sample of patients than would be possible at a purely national level, increasing the statistical significance of research findings.

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