
No. 1/85
January 10, 1985

Contact: Ella Krucoff
(202) 862-9540

BACKGROUND NOTE: REVIEW OF E.C.-U.S. ECONOMIC AND TRADE RELATIONS

The relationship between the European Community and the United States is of necessity complex and nowhere is this more apparent than in the sphere of economic and trade relations.

The Community and the United States are the major participants in the international economic and trading system and in this they support broadly similar aims of strengthening the open world trading system and thereby expanding world trade. At the same time, they are competitors with divergent interests and sometimes different interpretations of the multilateral trading rules.

In spite of occasional difficulties, the relationship has been successful in containing and controlling the many potential points of friction. Consultations at official level, frequent exchanges of visits by Ministers and Commissioners, and close contacts through the Commission's delegation in Washington and the U.S. mission in Brussels have taken place since the early days of the European Community.

In 1981, it was decided to intensify the dialogue at the political level and an important U.S. ministerial delegation led by the U.S. Secretary of State has since met each year with a Commission delegation headed by the Commission's President. The most recent of these meetings was on December 14 in Brussels. These talks emphasize that the E.C.-U.S. relationship is basically a cooperative enterprise and that any conflicts must not be allowed to escape from their limited context.

The bilateral and multilateral importance of this relationship cannot be overestimated. Not only does it provide a solid basis for an annual bilateral trade of over 100 billion European Currency Units (ECU)*, it also contributes in an important way to international trade cooperation. It has been instrumental in putting a brake on protectionist tendencies and in promoting international trade liberalization. The successive General

...../

* See page 6 for a description of the ECU's value against the dollar.

Agreement on Tariffs and Trade (GATT) Multilateral Trade Negotiations could not have succeeded without the active support and cooperation of the Community and the United States.

The bilateral relationship

There is no formal agreement fixing a framework for the totality of relations between the Community and the United States as there is, for instance, between the Community and each of the European Free Trade Association countries.

The ground rules for the bilateral relationship between the Community and the United States are mostly found in multilateral organizations, especially the ones which bring together the industrialized world, such as GATT and the Organization for Economic Cooperation and Development.

In the area of trade, the general GATT rules apply and particularly the Most Favored Nation clause. By these the parties set up a relatively transparent nonpreferential structure as regards trade tariffs and, through the GATT rules and codes, accept binding rules for most other matters concerning trade. In terms of quantitative restrictions, trade has been almost totally liberalized.

Bilateral agreements

Bilateral agreements have been concluded in certain specific sectors:

EURATOM/U.S. This was the the first agreement ever signed on behalf of the European Atomic Energy Community (Euratom), less than five months after the Euratom treaty came into force in 1958. The agreement, supplemented by a further agreement in November of the same year, establishes a framework for cooperation in the peaceful uses of atomic energy, including the supply of nuclear fuel to the Community by the United States.

In the late 1970's, the U.S. government requested a renegotiation of these agreements as they applied to safeguards throughout the nuclear cycle. Following difficult negotiations, an agreement was concluded to both sides' satisfaction.

ENVIRONMENT AND WORK SAFETY. In 1974, the Commission and the U.S. Administration agreed to periodic consultations at official level and, where appropriate, common action on environmental questions. In 1979, they agreed to hold expert level meetings on various aspects of safety and hygiene at work.

.... /

FISHERIES. An agreement was signed in February 1977 regulating access of Community fishermen to the U.S. fisheries zone. This agreement has recently been renewed for the period 1984-89.

STEEL ARRANGEMENT. During the present recession in the steel industry, the American government has sought to limit imports of ordinary and special steels to the American market.

At the beginning of 1982, the American steel industry, in a concerted effort to reduce steel imports from all sources, launched a series of anti-dumping and countervailing suits against, among others, European steelmakers. As the adoption of protective measures would have entailed a drastic reduction in European exports to the U.S. market, the Commission negotiated an arrangement providing for guaranteed but reduced access of 5.46 percent of the U.S. market for 10 categories of steel, and the dropping of all anti-dumping and countervailing suits by the American companies concerned.

The Carbon Steel Arrangement was concluded in October 1982 and has functioned to the satisfaction of both sides. Tension arose in January 1984 when Bethlehem Steel filed an import relief petition. This could have jeopardized the Arrangement if, as a result of the investigation, stricter import restrictions had been imposed than those agreed upon in the Arrangement.

Specialty steel was not covered by the 1982 Steel Arrangement. In July 1983, President Reagan, following a recommendation from the U.S. International Trade Commission, decided to impose quotas and additional tariffs on specialty steel imports for a period of four years. The Community protested against this unilateral action and demanded compensation under GATT rules. After unsuccessful negotiations, the Community was obliged to take compensatory action in conformity with GATT rules. This consisted of increasing tariffs and imposing quotas from March 1, 1984, on products such as chemicals and sporting equipment from the United States. They will remain for the duration of the American measures.

Steel pipes and tubes were also not covered by the 1982 Steel Arrangement. The E.C. and U.S. today signed an exchange of letters limiting E.C. pipe and tube exports to 7.6 percent of the U.S. market through 1986.

AGRICULTURE. While the E.C. remains one of the United States' major export markets for agricultural produce, importing 9.5 billion ECUs worth of American farm goods in 1983, friction does occur in this area, mainly centering on three issues:

- access to the U.S. market for Community exports;
- competition on third markets;
- U.S. exports of grain substitutes to the Community.

..../

An example of the problems concerning access to the U.S. market that have arisen in E.C.-U.S. agricultural trade is the growing tendency within the U.S. Congress to support legislation that implies some form of reciprocity in bilateral trade.

This is typified by the 1984 Trade and Tariff Act that has just been adopted by Congress. This legislation could restrict access of wine to the American market by giving U.S. grape growers the right to introduce anti-dumping and anti-subsidy complaints against wine imports.

The Community believes this is a violation of GATT rules, which specify that only producers of the same or of a similar product can introduce such complaints. The Commission has initiated GATT consultations on this matter.

On the question of competition on third markets, the U.S. considers the Community's use of export subsidies both fundamentally wrong and unfair. Article 16 of the GATT, however, allows export subsidies on agricultural products where they do not lead to an inequitable share of the world market or to an undercutting of the going price. The Community maintains that it has kept to the letter and spirit of Article 16, and points out that the U.S. employs a wide range of export aids itself (food aid and blended credits, for example).

As is explained by most American commentators, the difficult situation of U.S. exporters is due to the high level of the dollar and to a serious lack of funds, particularly in developing countries.

Encouragingly, agreement was reached in the recent meeting of the GATT contracting parties to discuss further how agriculture should be treated within the GATT framework and, in particular, to examine all export subsidies and import restrictions affecting agricultural trade.

On the question of cereal substitutes, the Community wishes to protect its program for reforming the Common Agricultural Policy and reducing farm support. Therefore it has been negotiating with its trading partners the stabilization, at their current level, of imports of certain cereal substitutes. It has already reached agreement with a number of countries concerning imports of manioc.

The Community now proposes to negotiate similar arrangements within GATT rules on corn gluten feed, a by-product to a large extent of U.S. corn sweetener manufacture. This would mean that exports of corn gluten feed to the Community could continue at the current level free of import duty. Any future expansion could involve paying customs duties. The E.C. could offer appropriate compensation to the U.S. for any trade affected.

.... /

OTHER ISSUES. The Community has expressed its concern to the United States on a number of other issues, including textiles, extraterritoriality and unitary taxation.

In the first of these, the United States Customs Service has implemented new rules of origin that could have a severe effect on exports of textiles from the developing countries to the U.S. and are already having some effect on Community exports.

On extraterritoriality, the new Congress will have to examine an Export Administration Bill which is likely to contain elements contrary to the Community's interest. Thirdly, the unitary taxation system adopted by some states creates an unfair tax burden for Community multinationals with subsidiaries in the United States.

DEVELOPMENT AND STRUCTURE OF TRADE. The Community and the United States are the two largest trading partners on the world scene. In 1983 they accounted for 20.5 percent (\$293 billion) and 17.3 percent (\$258 billion) respectively of total world exports.

The two parties are also each other's largest trading partner and their bilateral trade - over 100 billion ECUs alone - accounts for approximately 6 percent of world trade.

Over the years, E.C.-U.S. bilateral trade has constantly shown a trade deficit for the Community. At times this deficit has reached dramatic levels, as in 1980, when it was almost 18 billion ECUs. Because of the strength of the U.S. dollar, the Community's deficit has, however, decreased, and 1984 showed a Community surplus.

The last few years have shown a remarkable increase in bilateral trade between the Community and the United States. E.C. imports have more than doubled, from 25.7 billion ECUs in 1977 to 53.5 billion ECUs in 1983. In the corresponding period exports to the U.S. showed a similar rise, from 20.5 billion ECUs to 50.3 billion ECUs.

Seen from the point of view of the trade balance, the Community has its largest trade surplus with the U.S. in cars and trucks (6.4 billion ECUs), followed by oil (4.6 billion ECUs), iron and steel (1.9 billion ECUs), alcoholic beverages (1.9 billion ECUs), mineral manufactures (1.7 billion ECUs), machinery (1.1 billion ECUs) and nonferrous metals (1.1 billion ECUs).

The E.C. has trade deficits in oil seeds (2.8 billion ECUs), animal feed (2.1 billion ECUs) and cereals (1.1 billion ECUs); as well as office machinery (4.7 billion ECUs), electrical machinery (1.7 billion ECUs), scientific apparatus (1.5 billion ECUs) and coal (1.4 billion ECUs).

Trade between the E.C. and the U.S.

	Millions ECU							
	1960	1970	1975	1980	1981	1982	1983	1984* (6 months)
E.C./IMPORTS	5,470	12,416	20,915	44,601	49,585	53,831	53,482	30,400
E.C./EXPORTS	3,371	9,354	13,295	26,775	37,169	42,908	50,275	31,900
E.C. BALANCE	-2,369	-3,062	-7,620	-17,826	-12,416	-10,923	-3,207	1,500

* Estimate

Trade between the E.C. and U.S.
by Product Categories, 1983

	Millions ECU*					
	E.C. Imports	% of Total	E.C. Exports	% of Total	E.C. Balance	
Food	4,647	8.7%	1,451	2.9%	-3,196	
Tobacco/Beverages	670	1.3%	2,013	4.0%	1,342	
Raw Materials (including oil seeds)	6,486	12.1%	531	1.1%	-5,954	
Mineral Fuels	2,542	4.8%	5,693	11.3%	3,151	
Vegetable and Animal Oils	217	0.4%	43	0.1%	-173	
Chemicals	4,731	8.8%	4,013	8.0%	-718	
Basic Manufactures	3,706	6.9%	8,600	17.1%	4,894	
Machinery & Transport Equipment	19,204	35.9%	18,101	36.0%	-1,102	
Other Manufactures	5,984	11.2%	6,562	13.1%	578	

Source: EUROSTAT

* The exchange rate ECU/dollar varies daily as the various E.C. currencies, which make up the ECU, vary against the dollar. One ECU was worth \$1.00 from 1960 to 1972, \$1.24 in 1975, \$1.39 in 1980, \$1.12 in 1981, \$.98 in 1982, \$.89 in 1983 and \$.83 in 1984.

.... /

Trade between the E.C. and the U.S.

Millions ECU

	<u>E.C. IMPORTS</u>			
	1980	1981	1982	1983
EUR 10	44,601	49,584	53,830	53,481
FRANCE	7,729	7,875	8,202	7,906
BELGIUM - LUXEMBOURG	3,957	4,065	4,261	4,299
NETHERLANDS	4,866	5,610	5,982	6,413
FEDERAL REPUBLIC OF GERMANY	9,724	10,798	11,290	11,356
ITALY	4,995	5,563	5,936	5,369
UNITED KINGDOM	11,437	12,905	15,384	15,398
IRELAND	626	975	1,116	1,326
DENMARK	913	1,381	1,226	1,014
GREECE	351	409	430	397

	<u>E.C. EXPORTS</u>			
	1980	1981	1982	1983
EUR 10	26,775	37,168	42,907	50,275
FRANCE	3,543	5,028	5,338	6,474
BELGIUM - LUXEMBOURG	1,556	2,108	2,356	3,001
NETHERLANDS	1,335	1,980	2,196	3,112
FEDERAL REPUBLIC OF GERMANY	8,508	10,332	11,835	14,466
ITALY	2,980	4,627	5,284	6,317
UNITED KINGDOM	7,750	11,518	13,945	14,441
IRELAND	321	439	588	783
DENMARK	568	796	973	1,361
GREECE	211	336	389	315

	<u>E.C. BALANCE</u>			
	1980	1981	1982	1983
EUR 10	-17,826	-12,416	-10,922	-3,206
FRANCE	-4,886	-2,847	-2,863	-1,432
BELGIUM - LUXEMBOURG	-2,401	-1,957	-1,904	-1,298
NETHERLANDS	-3,531	-3,630	-3,786	-3,300
FEDERAL REPUBLIC OF GERMANY	-1,215	-465	544	3,110
ITALY	-2,015	-935	-651	948
UNITED KINGDOM	-3,686	-1,386	-1,438	-956
IRELAND	-306	-536	-528	-542
DENMARK	-344	-584	-252	347
GREECE	-140	-73	-41	-81

