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NEW US ADMINISTRATION FIRES TRADE SALVOS AT EC

After only a few weeks in office, the new US administration has already significantly soured EC-US trade relations by taking two aggressive trade actions that will harm EC firms.

In the first case, the US Department of Commerce (DOC) announced that it will levy stiff preliminary antidumping duties on imports of flat steel products from 19 countries, including seven EC member states. This means that the US Customs Service will require a cash deposit or bond equal to the estimated dumping margins for such products to gain entry in the US market. These duties are in addition to the preliminary countervailing duties determined by the DOC in November 1992 (see EURECOM, December 1992) on the same product categories, covering some 2 million metric tons of EC steel exports a year with a value of \$1 billion.

EC External Economic Affairs Commissioner Sir Leon Brittan reacted strongly: "This action is unwarranted and wholly disproportionate. It is also particularly unfortunate and inopportune at the beginning of a new US administration.

Such heavy-handed action — targeting not only Community steel producers but also those from Japan, Korea, Brazil, Canada, Mexico, Poland, Romania, Finland, Argentina, Australia, New Zealand, Austria and Sweden — will further weaken the chances of reaching a multilateral steel agreement, which the US has hitherto supported."

According to Sir Leon, the US is breaking the spirit of the previous multilateral steel accord, which ran for 10 years up until March 1992 and was highly advantageous to the US steel industry. EC steel exporters always respected the voluntary restraint agreements (VRAs) set out in the accord; in fact, EC steel exports to the US never even approached the negotiated quotas. Now the US is imposing antidumping and countervailing duties on Community steel firms based on exports to the US covering the exact time period as the expired agreement, even though the US had agreed that import restraints would settle any question of duties or injury while the VRAs lasted.

The second bone of contention stems from United States Trade Representative Mickey Kantor's announced intention to prohibit awards of federal contracts for products and services from the EC in retaliation for discriminatory provisions in EC public procurement practices (i.e. in the "Utilities" Directive), following through on a threat made by the previous administration (see EURECOM, March 1992).

Specifically, the US objects to a clause in the EC directive that calls for a Community preference if an EC bid for a contract in the "excluded sectors" (energy, water, transport and telecommunications) is not over 3% more expensive than an equivalent non-EC bid. The legislation, which took effect on January 1, also allows public entities to disqualify third-country bids with a value of more than 50% from outside the EC.

The EC's disputed preference clause has remained on the books because of concerns about a number of protectionist US policies in the procurement area, including: **The Buy American Act**, which imposes a strong and mandatory price preference on products of US origin; **sub-federal procurement**, which discriminates against non-US bids for contracts tendered by states, municipalities and other lower levels of government; and **access to utilities markets**, such as urban transport, airports and water supplies, which are not open on the US side.

In fact, the EC's directive actually offers increased liberalization of procurement in the EC and opportu-

nities for US firms that did not exist previously.

Said Sir Leon: "I cannot believe it is in anybody's interest, European or American, to attempt to deal with trade issues in this way. We do not accept this form of unilateral bullying — especially since there are on-going EC-US bilateral negotiations on telecommunication procurement and other issues within the Uruguay Round context.

If our concerns about US procurement practices are met, the EC would readily cease to apply the much more limited provisions to which the US takes exception," he said.

Commenting on the aggressive US trade moves,



the new Danish Foreign Minister and current holder of the EC presidency Helveg Petersen said that "the most important thing is to tell the Americans they are on the wrong track...What we are talking about is absolutely the wrong signal to the world economy."

BRITAN AND KANTOR MEET IN WASHINGTON

In a timely visit, Sir Leon Brittan met with new US Trade Representative Mickey Kantor for the first time in Washington on February 11.

Described as a "useful and productive meeting", they discussed bilateral EC-US trade problems, notably the steel and procurement issues detailed in the above piece, and the stalled GATT Uruguay Round trade talks. At a joint press conference following their meeting, USTR Kantor announced that President Clinton would ask Congress for a renewal of the fast-track authority connected to the passage of a GATT agreement.

Sir Leon welcomed the announcement, saying it "breathed new life into the Uruguay Round talks", which would begin again at the official level. According to Brittan, the EC view remains that the Round should be concluded quickly to avoid a loss of momentum, and that an early agreement is vital for world economic growth.

EC OPENS ENLARGEMENT TALKS

Sticking to a decision taken at the Edinburgh summit in December, the EC formally kicked off enlargement negotiations with "fast-track" EFTA applicants Austria, Finland and Sweden on February 1.

If the talks go well, the EC and applicant countries' foreign ministers agree that the three highly developed nations should be able to join the Community by January 1, 1995. However, EC External Relations Commissioner Hans Van den Broek recently cautioned that the scope

and complexity of the negotiations could hinder accession by 1995.

Norway, which has also applied for EC membership, is expected to enter the talks once the Commission delivers its opinion on Norway's application in a few months.

The negotiations with the three countries will be bilateral (i.e. EC-Austria) but, to the extent possible, in parallel with each other. They will cover 29 different areas, ranging from fisheries to foreign and security policy. Despite the fact that the Maastricht Treaty is not yet fully ratified, the EC has clearly stated that the applicants are negotiating on the basis of Maastricht, rather than the EC as it stands. For their part, the applicants insist that they do not intend to ask for opt-outs like those obtained by Denmark at the Edinburgh summit (see EURECOM, January, 1993).

Talks are expected to center on the applicants' requests for special treatment in agriculture and regional policy, and on the issue of their neutrality in light of EC plans for a common foreign and security policy.

REALIGNMENT REVISITED: IRISH POUND DEVALUED

After five months of struggle, the Irish pound finally succumbed to currency speculators, devaluing by 10% against the other currencies of the Exchange Rate Mechanism (ERM) of the EMS on January 30.

Marking the fourth EMS realignment in five months — before September there had not been a realignment in five years — the "punt's" devaluation was the largest single adjustment in the EMS' 13-year history.

Despite Ireland's good record on inflation and budgetary policy, one-third of Irish exports go to the UK, where interest rates and the British pound have plummeted since the UK left the ERM in September (see EURECOM, October 1992). Irish Finance Minister Bertie Ahern said his government reluctantly sought the

devaluation because of sterling's weakness and the devaluation of other ERM currencies in recent months. Warned Irish Foreign Minister Dick Spring, "unless we act together we [the ERM members] could be picked off one by one."

On a more hopeful note, however, the German Bundesbank surprised the markets and cut its leading interest rates several days after the Irish devaluation, easing tension within the embattled ERM in general and relieving pressure on the Danish krone in particular. EC Commission President Jacques Delors welcomed the move, calling it "a good political signal at a time when one was entitled to worry about the long-term stability of the European Monetary System."

EC HAILS POSSIBLE US ENERGY TAX

The Commission welcomed US Treasury Secretary's Lloyd Bentsen's recent disclosure that the Clinton administration may propose a broad-based energy tax to raise revenue and encourage more efficient fuels, which, if realized, could pave the way for the EC's own carbon/energy tax (see EURECOM, June 1992). Although the Commission has already proposed such a tax, it is subject to a "conditionality clause", meaning it can only take effect as part of a concerted worldwide effort. Further, the EC tax would also require the unanimous support of the member states.

New EC Environment Commissioner Ioannis Paleokrassas declared: "If the US is adopting such a plan, this will open the door to a rapid implementation of provisions necessary to fulfill the pledges made in Rio by all developed countries. This would also offer a new opportunity for further cooperation between the EC and the US in this crucial area."

Last May, as part of its strategy to reduce CO₂ emissions to 1990 levels by 2000, the Commission proposed a broadly based energy tax. Under the pro-

posal, the tax would start at \$3 per barrel of oil or equivalent fuels in 1993, rising \$1 a year until 2000 to reach \$10 per barrel. It would be a national tax levied at the point of consumption, similar to excise duties. Half of the levy would fall on the fuel content of all non-renewable energy and half on the carbon content. Renewable energy and petroleum used as raw material for petrochemicals would be exempt.

According to the Commission, the Community accounts for 13% of world CO₂ emissions, putting it behind Eastern Europe and the former Soviet Union (25%) and the US (23%), but ahead of Japan (5%).

EC UNVEILS 1993 ANNUAL ECONOMIC REPORT

EC Economic Affairs Commissioner Henning Christophersen recently presented the Commission's 1993 Annual Economic Report, painting a pessimistic picture of the present economic situation in the Community.

The 1993 report estimates that EC economic growth in 1992 was only 1.1%, compared with forecast growth of 2.25% in last year's Annual Economic Report. GDP growth is expected to slow further to only 0.8% in 1993, despite an anticipated, modest pick-up in activity in the second half. This slowdown implies an even higher EC unemployment rate, which will rise from 10.1% to 11.0% in 1993.

The downturn is also expected to become more generalized, with a severe contraction in the western part of Germany, where output is predicted to fall by 0.5%. After two years of recession, however, some hopeful signs are emerging in the UK, where GDP growth of 1.5% is forecast.

According to Christophersen, policy actions should be guided by the need to restore confidence and credibility. The present depressed economic conditions call for action on two fronts: measures to support growth in the short-run without

QUOTES

"We hope this unfriendly game, sometimes called dominoes, in which speculators pick on one currency after another, has finally come to an end."
German Bundesbank President Helmut Schlesinger, commenting on the recent German interest rate cuts and their effect on the EMS.

"It may be unfashionable to say so, but the advantages of a system involving more or less fixed exchange rates and macroeconomic cooperation far outweigh the anticipated advantages of a return to floating exchange rates. This has been proved since 1979... We must persevere, we must confirm our political determination in the face of speculation, and we must strengthen economic and monetary cooperation to make our stance more credible."
EC Commission President Jacques Delors.

"The days when we (the US) could afford to subordinate our economic interests to foreign policy or defense concerns are long past."
US Trade

Representative Mickey Kantor.
"The [EC-US] partnership is not a luxury for the United States, it's not a luxury for Europe... It's essential for both. It has to be based on a maximum of open trade and not on constant fusillades. That way lies impoverishment."
British Foreign Minister Douglas Hurd.
"It is time we acknowledged we should fight again for Europe if we do not want to accept that Europe falls into the petty spirit of the past."
Edzard Reuter, chairman of the board of Daimler-Benz.
"We wish to be an identifiable political unit in the eyes of the world... the commodity that is really lacking is coherence... Simply creating procedures... can never be a substitute for political will of the kind we need to operate together. I only need to mention Yugoslavia to make you realize how daunting the task is."
EC Commissioner Hans van den Broek.

endangering commitments to price stability and budgetary consolidation; and creating the necessary conditions for promoting employment-generating growth in the medium-term. On an EC level, Christophersen highlighted the important role which the Edinburgh growth initiative should play in breaking this self-perpetuating cycle of slowdown (see EU-RECOM, January 1992), but he stressed that the main responsibility for creating growth in the short-term lies with the member states. At present, The Commission and the member states are working together to identify any economic measures that could be potentially taken jointly.

Christophersen also underscored the importance for Germany to be clear on the financing of unification and to strike modest wage settlements, paving the way for a (further) reduction in interest

rates in Germany and in Europe.

While Christophersen still considers the EMU (Economic and Monetary Union) timetable set out in the Maastricht treaty realistic, he acknowledged a "strong link" between EC efforts to promote growth and the implementation of Maastricht's convergence programs. "The big risk is that there is no growth. If there is nothing to improve the growth rate, there could be some doubts about the economic convergence criteria for some countries," he said.

Already, the EC's aggregate deficit average has increased from 4.6% of GDP in 1991 to 5.3% in 1992. In particular, UK public finances deteriorated sharply, going from 2.8% of GDP in 1991 to 6.2% in 1992. According to the report, only Denmark, France, Ireland and Luxembourg met Maastricht's budget deficit criteria last year.



IN BRIEF...

...The Internal Market Council recently agreed to establish an agency to collect information about narcotics and addictive drugs. First proposed by French President Mitterrand, the European Monitoring Centre for Drug and Drug Addictions will provide the EC and its member states with information on topics ranging from demand for drugs to money laundering. The center will be governed by a council composed of representatives from the Commission, each member state and two people chosen by the European Parliament. Before it begins operations, however, a site for its headquarters must be chosen. This should happen at the European Council meeting in Copenhagen this June, when a package deal on sites for a number of EC agencies-in-waiting is expected.

...Similar to agreements struck with Poland, Hungary and the former Czechoslovakia, Romania and the EC have signed an association or "Europe" agreement, scarcely more than three years after the overthrow and execution of communist hardliner Nicolae Ceausescu. The agreement provides for increased economic and political ties between the EC and Romania at a time when Romania is struggling to maintain market re-

forms despite widespread poverty. Representing the EC presidency, Danish Foreign Minister Helveg Petersen said the accord would aid Romania's eventual goal of full EC membership when "the right time comes".

...EC foreign ministers agreed to a mandate for the Commission to negotiate revisions to the European Economic Area (EEA) after Switzerland's rejection of the accord (see EURECOM, January 1993). Soon a special diplomatic conference will be called between the Commission and six EFTA countries which will make the necessary modifications to the treaty.

...Based on the approach agreed at

the Edinburgh European Council (see EURECOM, January 1993), Denmark has set May 18 as the date for its second referendum on Maastricht. At present, polls indicate wide support for Denmark's revised Maastricht arrangement.

...Zola Sookias Associates and the British law firm Bird & Bird, with the participation of DGXI (the Commission's environment directorate), are holding a two-day conference entitled "EC/UK Environmental Regulations: Liability and Compliance Considerations for US Corporations" on May 20-21 in New York. For more information please contact Zola Sookias Associates at (212) 330-0914.



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