

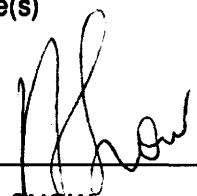
COMMISSION OF THE EUROPEAN COMMUNITIES

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Cover Page Plus 2 Page(s)



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| TO: J.B. RICHARDSON | FROM: Anna SNOW |
| DG I | DATE: 18 September, 1990 |

SUBJECT: TELECOMMUNICATIONS EQUIPMENT RESEARCH
AND MANUFACTURING ACT (S.1981)

441.2 (103)
special file

Attached please find copy of the letter Delegation sent today to Senator Hollings and other key senators on the Telecommunications Equipment Research and Manufacturing Act (S.1981).

Andreas van Agt

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| H.D. | ✓ |
| D.H.D. | ✓ |
| INFO. | 5 |
| TRADE | 5 |
| AGRI. | 2 |
| LEGAL. | 1 |
| FIN & DEV. | 4 |
| SCI & ENCL. | 3 |
| SUP. AG. | |
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DELEGATION OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES

The Head of the Delegation

17 September, 1990

The Honorable
Ernest F. Hollings
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman,

I am writing to you concerning the Telecommunications Equipment Research and Manufacturing Act (S.1981), which has been reported to the full Senate for consideration.

This Bill would permit the Bell Operating Companies (BOCs) to engage in research, design and manufacturing of telephone equipment. In doing so, however, it would also require all manufacturing activities to take place in the US using exclusively US-made components.

Such a provision would contravene the United States' obligations under the General Agreement on Tariffs and Trade. More specifically, it seems to us that this provision constitutes a breach of one of the fundamental principles of the GATT, namely that of national treatment. It also conflicts with the obligation undertaken by the Contracting Parties (Art. XVII) not, inter alia, to prevent any enterprise from acting in accordance with commercial considerations.

The provision would also have a very serious effect upon the efforts by all parties to the GATT to achieve a successful outcome to the Uruguay Round negotiations in general and those on Trade-related Investment Measures in particular, and indeed upon the relations between the European Community and the United States as a whole.

One of the objectives of the current round of negotiations has been to extend internationally agreed trading disciplines to previously excluded fields -- including the procurement of telecommunications network equipment. However, the BOCs account for some 80% of local telephone traffic in the US and clearly there would be a great deal less interest among the USA's trading partners in opening their markets if the BOCs were explicitly prohibited under US domestic legislation from operating according to market conditions, i.e. from procuring the best equipment or components, at the most reasonable price.

We would further contend that the present system of regulation in the US has not been altogether successful in preventing anti-competitive practices (for example, AT&T procures its network equipment virtually entirely in-house) and consequently would require modification in order to ensure that the BOCs' procurement arms purchased equipment in a truly competitive way, should they be permitted to enter into manufacturing. The Community is building safeguards against anti-competitive practices into its own internal legislation. It may well be that this is exactly the sort of issue which Vice-President Brittan has suggested could profitably be discussed between the US authorities and the European Commission with a view to arriving at a common approach to achieving the objectives in which both Europeans and Americans believe.

Finally, I would remind you that the European Community has not allowed the substantial bilateral trade deficits we are running with a number of suppliers of telecommunications equipment, including the US, to deflect us from our goal of liberalising our market for telecommunications equipment and services. The passage of legislation of this nature would not make it easier for us to maintain this position. We would in any event have to reserve our GATT rights.

Sincerely yours,
Andreas van Agt

Andreas van Agt
Ambassador

