

Brussels, 10 December 1987

441.2(103)

## **COMMISSION - UNITED STATES MINISTERIAL MEETING : 12 December 1987**

The latest in the now-well-established series of ministerial meetings between the Commission and the United States will be held in Brussels on Saturday, 12 December. The US representatives will be Mr Georges SHULTZ, Secretary of State, Mr Richard LYNG, Agriculture Secretary, Mr William VERITY, Commerce Secretary, and Mr Clayton YEUTTER, Special Trade Representative.

The Commission delegation will be led by the Commission President, Mr DLORS, and will also include Mr DE CLERCQ, Vice-Presidents ANDRIESSEN and NARJES, Mr CHEYSSON.

The purpose of these ministerial meetings is not to negotiate on specific issues but to take stock at a political level of the state of relations generally between the Community and the United States and also to exchange views on the international situation.

This year's meeting will be of particular significance as it will be taking place immediately after two major summits, the Reagan-Gorbachev meeting in Washington and the European Council Copenhagen. The two sides will look at prospects for the world financial and monetary situation following these summits and will also exchange information on recent domestic developments.

Bilateral relations between the United States and the Community in 1987 have been marked by an easing of tension on the trade disputes front. The two sides have succeeded in settling a considerable number of the conflicts dividing them on citrus fruit, enlargement and pasta products. Progress has also been made on the outstanding matters involving Airbus and the directive on abattoirs. In addition, both sides have made significant contributions to progress in the Uruguay Round. This is the background against which the two sides will take stock on their trade relations and assess the scope for future development and cooperation.

Mr Shultz and Mr Delors will have private talks on 12 December before presiding jointly over the full meeting. In addition, the ministerial session will be preceded on 11 December by a number of separate meetings between US ministers and members of the Commission to review specific trade matters (Airbus, telecommunications) or agricultural questions (Uruguay Round, reform of the CAP).

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## UNITED STATES / COMMUNITY RELATIONS

Trade relations between the Community and the United States have recently been subject to periods of extreme tension as a result of the protectionist pressure in the United States caused by a record budget deficit (US\$ 220 billion in 1986), a considerable trade deficit (US\$ 170 billion in 1986) and the crisis in farming.

Moreover, the United States and the Community are in the odd situation of being bound by close links but at the same time competing in trade, something which regularly leads to friction between the two.

### \* BACKGROUND

Although, there is no formal agreement setting out a general framework for relations between the Community and the United States, contacts between the two sides are frequent : consultations between officials, frequent exchanges of visits by Ministers and Members of the Commission, and close contacts through the Commission Delegation in Washington and the US Mission in Brussels have taken place since the founding of the Community. In 1981, it was decided to step up dialogue at political level and since then a large US ministerial delegation led by the US Secretary of State has met each year a Commission delegation headed by the President of the Commission.

The ground rules applied to the bilateral relationship between the Community and the United States are those of multilateral organizations such as GATT and the OECD. In trade, the general GATT rules apply, notably the most-favoured-nation clause. Thanks to these rules, the GATT contracting Parties have been able to set up a relatively transparent non-preferential structure for trade tariffs and, through the GATT rules and codes, the Parties accept binding arrangements for most other matters concerning trade. In terms of quantitative restrictions, trade has been almost totally liberalized.

However, while there is no overall agreement between the Community and the United States, cooperation has grown steadily in very many areas and in some instances specific agreements have been concluded.

### EURATOM/US

This was the first agreement signed on behalf of the European Atomic Energy Community (Euratom), less than five months after the entry into force of the Euratom Treaty in 1958. This agreement, supplemented by another agreement in November of the same year, establishes a framework for cooperation on peaceful uses of nuclear energy, including the supply of nuclear fuel to the Community by the United States. At the end of the 1970s, the United States Government proposed updating parts of the agreements relating to safeguards throughout the nuclear cycle. Talks between the two parties are under way and on 7 July 1986 the Community and the United States signed a joint declaration of intent on research into radiation protection. A scientific and technical cooperation agreement on thermonuclear fusion was signed at the end of 1986.

#### **ENVIRONMENT AND SAFETY AT WORK**

In 1974, the Commission and the US Administration agreed to hold regular consultations between officials and, where necessary, take joint action on environmental issues. In 1979, it was decided to hold a meeting of experts to examine various aspects of health and safety at work.

Two other sectors were pinpointed for future cooperation : the treatment of dangerous waste and air pollution.

#### **ADVANCED TECHNOLOGY**

In 1983 the Commission and the United States set up a working party to look at the situation in the field of advanced technology and pinpoint sectors for cooperation. Since then the two sides have exchanged information on questions of mutual interest.

In the field of telecommunications, joint discussions have led to the setting-up of various working parties (standards, public procurement, competition and statistics).

#### **FISHERIES**

An agreement on access by Community fishermen to United States fishing zones was signed in February 1977. The agreement has been renewed for the period 1984-89.

#### **\* ECONOMIC AND TRADE LINKS**

There are close economic links between the Community and the United States : they are leaders in the world economic and trading system. Alone, they account for over 30 % of world trade, and thus have a major responsibility for the management of the system.

Between them, they account for over 40 % of world GDP. European investment in the United States amounts to US\$ 106 billion out of total foreign investment, of US\$ 160 billion, while United States investment in the Community accounts for US\$ 82 billion out of a total of US\$ 233 billion. They are also linked by the size of their combined industrial output : some 35 % of world steel production, 55 % of world car production and 70 % of world aircraft production.

The Community and the United States are major markets for each other, with trade between them totalling 132 billion ECU (over US\$ 129 billion) in 1986. The 1986 figures show that the Community was by far the United States' leading export market, worth US\$ 53.2 billion (about 24 %) compared with Canada (US\$ 45.3 billion, 21 %) and Japan (US\$ 26.9 billion). Total US trade (exports + imports) with the Community of Twelve stood at US\$ 132.7 billion against US\$ 114 billion with Canada and US\$ 112.3 billion with Japan.

In recent years, except 1986, there has been a remarkable increase in bilateral trade between the Community and the United States. Community imports have more than doubled, from 25 711 million ECU in 1977 to 56 655 million ECU in 1985. In the corresponding period, exports to the United States rose from 20 531 million ECU to 75 142 million ECU.

Over the years, the Community has regularly run up a trade deficit with the United States. At times, this deficit has reached high levels, as in 1980, when it was almost 18 billion ECU. However, because of the strength of the US dollar, the trend has been reversed and in 1986 the Community had a surplus of 18 billion ECU.

#### \* SPECIFIC RECENT PROBLEMS

The Community and the United States have managed to settle in the last two years a number of problems that were blighting relations between them.

#### STEEL

Since early 1985, steel has been a major bone of contention between the Community and the United States. Following a number of rounds of negotiations, the last of which ended in September 1986, virtually all the Community's steel exports to the United States (about 6 million tonnes a year) are now covered by arrangements which will expire in September 1989.

This solution was reached in successive stages. The Community and the United States first negotiated a carbon steel arrangement in 1982. Under this arrangement, exports of ten steel products accounting for 80 % of all Community exports of steel to the United States were restricted to a given proportion of US steel consumption. The arrangement also covered 17 products that were not restricted ; 16 of them became subject to restraint following a round of negotiations which ended in August 1985. Only semi-finished products remained outside quotas. However, they too became subject to restraint in September 1986 after a tit-for-tat sequence of measures and countermeasures.

An arrangement covering tubes and pipes was concluded in January 1985. It restricted Community exports of these products to 7,6 % of presumed US consumption except in cases where US industry was not able to meet domestic demand. The initial arrangement covered 1985 and 1986 and has also been extended until 1989.

Some special steels (stainless steel) used to be subject to unilateral US measures, to which the Community responded by taking retaliatory action. The measures on both sides have now been abolished, and the products in question have been included in the steel agreement expiring in 1989.

#### MEDITERRANEAN PREFERENCES

In August 1986 the Community and the United States managed to put an end to a long-running dispute going back 15 years which concerned the United States' objections to the tariff preferences accorded by the Community to citrus fruit from the Mediterranean countries with which the Community had concluded preferential agreements. The dispute took a turn for the worse in June 1985 when the United States slapped very high customs duties on Community past products from the Community as a retaliatory measure.

The Community countered in July with measures to increase sharply the duties of walnuts and lemons.

These measures came into force on 1 November 1985. After difficult negotiations, agreement was reached in August last year.

Under the arrangement :

- the United States recognized the Community's Mediterranean agreements and undertook not to make any further complaints about the preferences for Mediterranean citrus fruit ;
- the two parties agreed on a number of concessions in the form of tariff reductions or quota increases, the Community on citrus fruit and almonds, the United States on products affecting the Mediterranean Member States, notably olives and olive oil.

## ENLARGEMENT

In March 1986, the United States raised objections about the implementation by Spain and Portugal of the provisions on agriculture in the Accession Treaty. It claimed that these provisions were adversely affecting their maize, sorghum and soya exports to Spain and Portugal. The United States asked the Community for immediate compensation to cover loss of earnings from the agricultural trade, which it put at a billion dollars. The Community considered the US objections to be unjustified and argued that the effects of enlargement had to be evaluated as a whole without singling out the agricultural sector in particular. The significant reduction in customs duties on industrial products entering the two new Member States should benefit non-member countries.

In January 1987, at the end of particularly difficult negotiations in which each side resorted to retaliatory and counter-retaliatory measures, the parties signed a four-year interim agreement.

The agreement provides for the opening of an all-comers' quota of 2 million tonnes of maize and 300.000 tonnes of sorghum at a reduced levy and a slight reduction in customs duties on a range of industrial and processed agricultural goods, and does away with the reservation of 15% of the Portuguese cereals market for Community exporters.

## PASTA PRODUCTS

In August 1987, the Community and the United States managed to find a satisfactory solution to a conflict on pasta products which had existed for several years. The United States disputed the legality of export refunds for Community pasta products, arguing that pasta constituted a processed product and that therefore the refunds were contrary to international trade rules even though no condemnation of the refunds had been obtained from GATT.

This conflict had reappeared at the time of the dispute on citrus fruit, at the end of which the two sides agreed to seek a mutually acceptable settlement of their dispute on pasta products. This they did in August 1987 with a solution which does not challenge the principle of the Community refunds. The Community is introducing a balance between Community exports on which export refunds are given and those falling under the heading of inward processing traffic. This system involves importing the raw material, durum wheat, without payment of a levy and exporting an equivalent amount in pasta products without receipt of a refund. The system entered into force on 1 October 1987, on which date refunds for exports of pasta products to the United States were reduced to 27.5%. The United States, for its part, has undertaken not to take any measures against European exports of pasta products and not to reopen the dispute at GATT level.

## \* OUTSTANDING MATTERS

The Community's major concern in its current relations with the United States remains the various trade bills under discussion in Congress. These bills contain many protectionist aspects which, if adopted, would seriously affect the Community. Consequently, the Community has spared no effort in presenting its point of view to the US authorities. On several occasions, the Commission and Community's Foreign Affairs Council has warned the United States against adopting such measures, and Mr De Clercq and Mr Andriessen visited Washington in July 1987 to discuss this problem with leading Congressmen.

They concentrated on those provisions of the bills which most worry the Community :

- the unilateral redefinition of internationally established trade protection rules (anti-dumping and countervailing duties).
- potential restrictions on foreign investment in the United States;
- the concept of sectoral reciprocity;
- the establishment of new non-tariff barriers;
- the limitation on the powers of the Executive in matters of trade policy.

They made it clear that if such measures were adopted, the Community would be forced to take similar measures. This would have adverse effects not only on the 5 million jobs which depend on exports to the United States but also on the future of the entire international trading system.

- Airbus : the United States challenges the subsidies received by Airbus and, in March 1987, requested discussions in the framework of the GATT Committee on Trade in Civil Aircraft. The purpose of these discussions is to find a common interpretation of Articles 4 (public procurement) and 6 (Government support). At the two meetings on this matter held in Geneva, progress was made on the interpretation of Article 4. Since the positions are still divided on the interpretation of Article 6, the two sides will continue their contacts.

After several meetings at expert level a meeting at ministerial level was held in London on 27 October. At this meeting it was clear that all the parties wished to resolve the problem by negotiation and the experts were given guidelines to enable them to continue their work. Since then several meetings of experts have been held and it has been agreed that progress will be reviewed by Mr De Clercq and Mr Yeutter at the ministerial meeting on 12 December.

#### SEMI-CONDUCTORS

The Community has protested against the agreement concluded on 30 July last year between the United States and Japan on semi-conductors. In its opinion, some aspects of the agreement go against the rules of international trade and threaten the Community's legitimate interests. Two aspects of the agreement are of particular concern : the arbitrary increase in the price of semi-conductors on the Community market and US firms' privileged access to the Japanese market.

The Community has therefore started proceedings in GATT both under Article XXI/2 and in the Anti-dumping Committee.

- Community Directives on abattoirs and hormones : the United States is opposed to the Community Directive introducing hygiene rules in abattoirs. It believes that this Directive will obstruct its exports. The US authorities have recently requested the setting-up of a GATT panel to deal with this subject.

The United States is also strongly opposed to the Community Directive prohibiting the use of hormones in meat.

The Community believes that this Directive is now discriminatory since it applies both within the Community and to non-member countries and moreover, was adopted for reasons of health and consumer protection. This Directive will enter into force on 1 January 1988. Nevertheless, transitional measures authorize the marketing of hormone-treated meat until the end of 1989.

The Community has complained to GATT about certain US measures concerning imports which, claims the Community, are discriminatory. They include the "super fund" - a tax on oil imports - and the "customs user fee", which is in fact a supplementary customs duty. These two measures have recently been condemned by GATT panel. The Community expects the US authorities to adapt their regulations to comply with the panels' reports.

The difference between the Community and the United States on controls over advanced technology exports for reasons of national security and foreign policy have not been settled. The Export Administration Act and other laws concerning export controls are applied extra-territorially to the Community territories. This is unacceptable to the Community for reasons of sovereignty.

#### \* AGRICULTURE

The CAP is still a target for US attacks although the respective forecasts of budget expenditure in 1986 for the United States and the Community showed that the United States would spend more than US\$ 7 000 per head of the farming population, while the Community would spend only US\$ 2 800.

American criticisms of the common agricultural policy notwithstanding, the Community remains the US farmers' best customer and the world's biggest importer of agricultural products. In 1986 the Community easily retained its position as the United States' main export market: US\$ 6.4 billion against US\$ 5.1 billion for Japan. Furthermore, US agricultural exports to the Community have fallen by only 3 % compared with 19 % on other markets. They now account for some 25 % of total US exports.

Tensions between the Community and the United States over agriculture stem largely from the decline in US agricultural exports, which fell from US\$ 48 billion in 1981 to 26 billion in 1986. The US Department of Agriculture, however, blames the recent drop in US agricultural exports on the high dollar in the early 1980s, US price support levels and the fact that the developing countries have either not had the money to buy these products or have improved their self-sufficiency in the agricultural sector.

The United States has therefore embarked on an aggressive policy of conquering world markets. This was the main aim of the programme of export subsidies, the Export Enhancement Programme. Under this programme, US\$ 2 billion will be available to US exporters over a three-year period to help them boost their sales of agricultural products, especially wheat, on foreign markets.

The Commission immediately condemned this move, which it believes is unwarranted and liable to disrupt world trade in agricultural products. It argues that although the US share of the world wheat market shrank from 49 % in 1981/82 to 29 % in 1985/86, it was hardly the Community's fault since the Community's share remained steady during this period at about 14 %. The US has no share of the world market in dairy products in the early 1980s but took 10 % in 1985, an increase achieved at the expense of the Community.

These frictions are the manifestation of a deeper phenomenon : the structural imbalances at world level in several agricultural sectors. They require serious changes in agricultural policy in the main producing countries. As for the Community, a readjustment of the CAP has taken place over the last few years with substantial results in production in particular in the milk sector, beef and cereal sectors. The Community hopes that this adjustment - which is extremely hard on European farmers - will be accompanied by similar modifications in American agricultural policy. This is why the Community attaches particular importance to the agricultural discussions which will be held in the Uruguay Round.

TRADE BETWEEN THE COMMUNITY OF TWELVE AND THE UNITED STATES  
BY COUNTRY

1986

|                    | IMPORTS | EXPORTS | BALANCE |
|--------------------|---------|---------|---------|
| France             | 7958    | 8985    | 1027    |
| Belgium-Luxembourg | 3512    | 3714    | 1       |
| Netherlands        | 6509    | 3914    | -2595   |
| Germany            | 11747   | 25943   | 14196   |
| Italy              | 5796    | 10673   | 4877    |
| United Kingdom     | 13960   | 15462   | 1502    |
| Ireland            | 1528    | 1117    | -409    |
| Denmark            | 1150    | 1901    | 751     |
| Greece             | 349     | 408     | 59      |
| Portugal           | 657     | 514     | -143    |
| Spain              | 3278    | 2519    | -759    |
| TOTAL              | 56642   | 75150   | 18508   |

1987

January - September (1)

|                    | IMPORTS | EXPORTS | BALANCE |
|--------------------|---------|---------|---------|
| France             | 5661    | 6593    | 932     |
| Belgium-Luxembourg | 2751    | 2675    | - 18    |
| Netherlands        | 4560    | 2604    | -1956   |
| Germany            | 8408    | 17640   | 9232    |
| Italy              | 4310    | 7005    | 2695    |
| United Kingdom     | 10497   | 11340   | 843     |
| Ireland            | 1256    | 759     | - 497   |
| Denmark            | 949     | 1213    | 264     |
| Greece             | 206     | 447     | 241     |
| Portugal           | 443     | 384     | - 59    |
| Spain              | 2299    | 1769    | - 530   |
| TOTAL              | 41340   | 52429   | 11089   |

(1) Provisional figures



TRADE BY GROUP OF PRODUCTS

(1986 - In million ECU\*)

| EEC                                   | EEC Imports | EEC exports | Balance |
|---------------------------------------|-------------|-------------|---------|
| Agriculture                           | 3422        | 2272        | - 1150  |
| Tobacco, beverages,                   | 808         | 2398        | + 1590  |
| Raw materials<br>(Including oilseeds) | 5620        | 649         | - 4971  |
| Mineral fuels                         | 2841        | 3201        | + 360   |
| Vegetable and animal oils             | 186         | 95          | - 91    |
| Chemicals                             | 6087        | 5333        | - 754   |
| Basic manufactures                    | 3856        | 11313       | + 7457  |
| Transport equipment and<br>machinery  | 23415       | 32872       | + 9457  |
| Other manufactures                    | 6892        | 12232       | + 5340  |
| Not elsewhere specified               | 3515        | 4786        | - 1271  |
| TOTAL                                 | 56642       | 75150       | 18508   |

Source : EUROSTAT

(\*) The ECU-dollar exchange rate varies each day as a result of the fluctuations (against the dollar) of the various currencies making up the ECU. One ECU was worth US\$ 1.2 in 1973, US\$ 1.39 in 1980, US\$ 1.12 in 1981, US\$ 0.98 in 1982, US\$ 0.89 in 1983, US\$ 0.83 in 1984, US\$ 0.75 in 1985 and US\$ 0.98 in 1986.