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Delivered by Sir Roy Denman, Head of the Delegation of the Commission of the European Communities and Ambassador Vernier-Palliez, Embassy of France to Mr. Alan Wallis, Under Secretary for Economic Affairs, Department of State - January 24, 1984.

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US-EC TRADE IN WINE

Memorandum by the Commission of the European Communities

This note sets out and comments briefly on certain developments in the wine sector - the Wine Equity Bill, talk of retaliation on EC wines, and impending countervailing and anti-dumping suits against EC wines - which could severely damage the trading relationship between the United States and the European Community.

2. It does so against the background of a trading relationship across the Atlantic already under considerable strain. The filing of an escape clause petition under Section 201 of the 1975 Trade Act by a major U.S. steel producer is in conflict with and must put into severe jeopardy the Steel Arrangement concluded in 1982. And in the context of the Commission's recent proposals for changes in the Common Agricultural Policy proposals to review certain imports have led to talk of immediate retaliation on a major scale contrary to the international trading rules. All this could easily lead to a major escalation of retaliatory trade restrictions on both sides of the Atlantic. This would not only put in danger the one world trading system on which the prosperity of the West has been based for nearly forty years but would be bound to have dangerous consequences for the political relationship across the Atlantic.

3. These dangers of trade restrictions are bound to cause the European Community considerable concern. Three prospective developments of this kind currently relate to the wine sector.

4. The Wine Equity Bill recently introduced in Congress. This Bill threatens the access of foreign wines to the U.S. market in the guise of seeking strict reciprocity on a product by product basis. But bilateral reciprocity sector by sector is in conflict with the international trading rules (the GATT) and the whole thrust of the post-war liberalisation of trade. This has been based on the concept of an overall balance of advantage. To try to establish strict reciprocity in one sector would rapidly spread to a general sector by sector approach and would radically reduce the relatively free access enjoyed by traders to the markets of the major developed countries. This would pose a severe threat in particular for American exports of goods where American tariffs or non tariff barriers are substantially higher than in many other countries.

5. The Commission proposal in the context of changes suggested in the Common Agricultural Policy that discussions should be entered into with the United States under Article XXVIII of the GATT with a view to seeking stabilisation of imports of corn gluten feed and other grain substitutes - against appropriate compensation - has led to talk of immediate retaliation by the United States against Community exports of wine. In 1982 United States imports of wine from the EC were valued at $668 million; this is the largest single EC agricultural product exported to the U.S. and helps to redress the EC trade deficit in agriculture with the U.S. which amounted to some $6 billion in 1982. Immediate retaliation if the discussion were proposed would be contrary to the GATT. The GATT provides for discussion under Article XXVIII of any proposed changes in concessions previously negotiated (imports of corn gluten feed are at present bound at a zero tariff) providing suitable compensation can be agreed.

Thus the first step is discussion, a careful examination of the extent of the compensation which would be justified and a search for agreed compensation just as took place last summer when the United States Administration imposed restrictions on imports of specialty steel. Not to engage in this process and to retaliate immediately would be a major breach of the GATT rules, would be contrary to the assurances given during the Senate hearings by representatives of the U.S. Administration and would lead to immediate pressure in the Community for counter retaliation on a major scale - possibly in the agricultural sector.

6. News that a countervailing duty and anti-dumping application against Community wine exports to the United States is under preparation by American grape growers. In our view the problems faced by the U.S. wine industry do not result from the Community's internal wine policy. Wine produced in the Community does not benefit from any export subsidies to the U.S. The goal of the Community wine policy is:

(a) to reduce the volume of production through the uprooting of vineyards producing low quality wine;

(b) to improve the quality of wine;

(c) to avoid the collapse of prices when crops are too large through distillation and private storage schemes.

7. The Community programmes for wines are similar to programmes maintained by the U.S. to support agricultural prices by withdrawing products from the market. These programmes are not aimed at export promotion; they aim at preventing a fall in market prices. EC programmes to improve the quality of wine are also similar to U.S.D.A. programmes, are not specific to wine and, furthermore, involve very small sums.

8. As a result during the past ten years the acreage planted to vines decreased by about 8 percent in the Community (compared with an increase of 10 percent in California). Mr. Hathaway, Deputy General Counsel in the Office of the U.S. Trade Representative, clearly stated on November 15 at a hearing of the Subcommittee on Trade of the Ways and Means Committee that the current problems of the U.S. wine industry result from the recent U.S. economic recession and the increase in the value of the dollar since 1981 vis-a-vis the currencies of the major wine producing nations.

9. Even then in 1983 despite an exchange rate favouring imports into the U.S. wine imports from the EC were expected to increase by only 5 percent. On the other hand U.S. production of grapes in 1982 reached a record high, contributing to large U.S. wine inventories and the current marketing problems of the grape and wine industry.

10. One further point needs to be made. In 1973 shortly after the Community had put in place common rules for wine, technical discussions began at the request of the U.S. Government with the Commission in an attempt to harmonise EC and U.S. regulations. These discussions led to progressive changes on both sides of the Atlantic and culminated in an agreement signed in July 1983. And the EC Commission has been studying the possibility of abolishing the compensatory tax currently levied on U.S. wines exported to the Community. According to the Honorable John Walker, Assistant Secretary to the Treasury, "talks between the U.S. and the Community have enabled U.S. wine exports to expand from a few thousand gallons to more than 2 million gallons annually ..... These bilateral commitments will ensure future market opportunities for the U.S. and offer significant opportunities for trade expansion". Clearly the developments set out above will not only represent dangers to

the general trading relationship between the Community and the United States, they also pose a specific threat to the rising volume of wine exported by U.S. wine growers to the Community.

11. The Commission hopes that the United States Administration will give careful consideration to the points in this memorandum.

Washington, D.C.

24 January, 1984