Briefing paper for Comm. Brunner
(meeting Klutznick 24/3)

Notes
M.C.

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

WASHINGTON DELEGATION

TRADE AFFAIRS

March 21, 1980

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Special file

Subject:- SYNTHETIC FIBERS

During the last two years European manufacturers of certain synthetic fibers have been increasingly exposed to competition from U.S. producers. In respect of polyester fibers and products, the European producers and the Commission maintain that U.S. producers have an unfair advantage due to the fact that internal U.S. prices for feedstocks is considerably lower than in Europe due to the American dual pricing system for oil and natural gas. In addition, European producers are prevented from buying the basic raw material, i.e. naphta, at the low price prevailing on the U.S. market due to restrictions on exports of naphta which are only permitted at a very low level (see below for more details on polyester fibers).

In respect of certain other products, i.e. acrylic fibers, European producers filed antidumping petitions in 1979 and the subsequent investigations led to the imposition of antidumping duties against one U.S. firm and to an understanding with another firm which led to an increase in its prices. Lastly, there are rumours concerning the filing of an antidumping petition by the Association of European Synthetic Fibers Manufacturers in respect of polyester fibers. These rumours have received quite a wide publicity in the U.S. but we are informed that the European Association has been hesitating for quite a while and that they may continue to do so.

Consultations between the U.S. authorities and the Commission started in October 1979 in respect of polyester fibers where, as indicated above, our main argument was that U.S. producers had an unfair advantage due to the dual pricing system. In December 1979, the Commission took the matter to the GATT on the basis of Articles XX(i) and XXIII(1). This meeting and the subsequent meetings in January were inconclusive and at the beginning of February 1980, the U.K. requested the immediate intervention of the Commission in respect of polyester filament yarn, polyamid yarn for carpets and tufted carpets. The Commission acceded to this request in respect of the first two of the three products by limiting until the end of 1980 imports into the United Kingdom to the following quantities:

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- Polyester Filament Yarn:

  1980 imports are limited to 9,053 tons as compared with 13,063 tons in 1979 (this quota is the average of 1978 and 1979 imports).

- Polyamid Yarn for Carpets:

  1980 imports are limited to 7,500 tons as compared with 5,757 tons in 1979 (this quota was based on imports during the last six months of 1979 which were in sharp increase over the first six months of that year; this explains why the quota for 1980 is higher than the actual imports of 1979).

These import restrictions are applicable to countries other than those with which the Community has concluded preferential agreements such as EFTA, LOME AND AMF countries. They have been justified by reference to the rapidly rising market share of imports of the two products in question. The share of imports of polyester filament yarn in total U.K. consumption rose from 4.9% in 1976 to 18.3% in 1979; U.S. exporters increased their market share from 7.1% in 1978 to 17.7% in 1979 and to 25.5% in the last quarter of 1979. At the same time, U.K. production and home market sales decreased very considerably; prices and employment have also fallen.

As for polyamid yarn for carpets, the share of imports in total consumption increased from 4.3% in 1976 to 20.7% in 1979; U.S. exporters increased their market share from 8.6% in 1978 to 18.1% in 1979 and to 25.5% in the last quarter of 1979.

During the consideration of these matters on the 113 Committee, the Italian Delegation announced its intention of requesting protection against certain imports of synthetic fibers, including polyester filament yarn. However, to our knowledge, no formal request has ever been submitted by the Italian authorities and the present status of this question is unclear.

Following the imposition of these import restrictions, the U.S. Administration requested the initiation of Article XXIII consultations which were held recently in Geneva. They notably requested compensation in respect of a trade volume of $55 million and insisted on the inacceptability of what they consider as being a selective measure (since EFTA, LOME AND AMF were not affected by the restrictions). The Commission is of the view (and U.S. officials privately admit) that the figure of $55 million is grossly exaggerated and it may be expected that we will give a negative answer to this request in which case the U.S. is likely to withdraw concessions on products of interest to the United Kingdom. As concerns the selectivity issue, the U.S. already protested when the EFTA agreements were being cleared under Article XXIV against the provision concerning quantitative restrictions. This provision prohibits the institution of quantitative restrictions between the Community and its EFTA partners except in cases where the necessity of such a measure can be proved. In the view of the U.S., this was and is inconsistent with the general MFN obligations.

As to the substance of the measures themselves, we have so far heard no complaints, neither from the U.S. industry nor from the U.S. Administration, all of which seem to realize that the Commission has postponed the taking of the measures for as long as possible and it has kept the restrictive element to a minimum.

Consultations will be resumed in Geneva on April 10.

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DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

TRADE AFFAIRS

Washington Delegation

March 24, 1980
MPC/mr

Subject: STEEL

On Wednesday, March 19, it was announced that the President would suspend the Trigger Price Mechanism (TPM) if any antidumping petitions were filed by U.S. companies in respect of imports of steel. Following this announcement U.S. Steel Corp. made public its decision to file and on Friday, March 21 it filed 7 antidumping petitions with the Commerce Department and ITC (International Trade Commission) against companies in Belgium, France, Germany, Italy, Luxembourg, the Netherlands and the U.K.

The petitions cover all major carbon steel exports by these countries to the U.S., i.e. structural shapes, plate, hot and cold rolled sheet and galvanized sheet (except in the case of the Netherlands where structural shapes are not included in the petition and except for Luxembourg where a petition has only been filed in respect of structural shapes). The companies concerned are the following: Belgium: Cockerill, Sidmar, Hainaut/ Sambre, Clabecq; France: Usinor and Sacilor; Germany: Klöckner Werke, Krupp, Peine-Salzgitter, Röchling-Burbach, Thyssen, Hoesch; Italy: Italsider; Luxembourg: Arbed; Netherlands: Hoogovens; U.K.: British Steel.

Counting from Friday, March 21, the ITC has 45 days to arrive at a preliminary determination of material injury. The Commerce Department has first 20 days to make the administrative decision to initiate the investigation of the dumping margin and either 160 days (in normal cases) (counting from Friday, March 21), or 210 days (in extraordinarily complicated cases) to make its preliminary determination of antidumping margins.

On Friday, March 21, M. Davignon called in the American chargé d'affaires in Brussels and expressed to him the disappointment and bitterness of the Commission at the evolution of the situation, which he saw as developing in a manner inconsistent with the OECD concensus. At a 113 Committee meeting that same day it was decided that member States in Washington should make démarches to the same effect.

The Delegation had the opportunity of examining roughly 1.700 pages of petitions late Friday afternoon and subsequently sent the attached summary by telex to Brussels. We have, today (Monday, March 24) obtained copies of the complete petitions. Please note that the apparently very high dumping margins and sales below cost of production margins quoted in our telex constitute a "normal" opening gambit in most antidumping cases.

M. Davignon will give an interview today to the Wall Street Journal or the Journal of Commerce in which he is expected to respond to some of the main arguments advanced by U.S. Steel Corp.

The Meeting between the Commission and Eurofer will take place this Wednesday in order to discuss tactics.

Visit of Mr. Brunner to USA

EC-US Trade Situation 1979

1. First figures released by the US Department of Commerce indicate an overall trade deficit in 1979 of $ 24.7 billion[1] as opposed to $ 28.4 billion for 1978.

The geographical breakdown for the full year is not yet available, but on the basis of nine months figures balances with US principal trade partners were

Canada, deficit $ 3.3 billion (1978, Jan-Sept $ 3.9 bill)
Japan, deficit $6.6 billion (1978 Jan-Sept $ 9.3 bill)
EC, surplus $ 5.9 billion (1978 Jan-Sept $ 1.3 bill)

Clearly the US balances with the major industrialized regions have all moved in the US's favour. By contrast the balance with developing countries, a deficit of $ 20.2 billion for Jan-Sept 1979 shows a sharp deterioration compared with the deficit of $ 14.3 billion for the same period 1978. This is due to increased deficits with oil producers.

2. Community figures are available for nine months only. These show a deficit on extra-Community trade of $ 20.2 billion[2], compared to $ 4.8 billion for the same period of 1978. The bilateral balance with USA was $ 9.0 billion (Jan-Sept 1978 $ 4.7 billion). Balances with other major industrialised trade partners have also deteriorated: Japan: deficit $ 4.9 billion (1978 $ 4.6 bill) EFTA countries $ 6.3 bill ($ 5.8 bill) Canada $ 1.4 billion ($ 0.7 bill)

The previous highest full year deficit with the US was $ 7.3 billion in 1976.

3. Several factors have combined to produce the significant widening of the trade gap in 1979. First and most noticeable, the reduced dollar exchange rate both increases the price competitivity of US exports, and makes it more difficult for foreign importers into US to compete on price. Second, the slow-down during 1979 of the US economy has meant a lowering of demand for many imported goods, particularly of consumer

goods of the kinds which constitute a large part of imports from the Community. Third, a phase of capital renewal and investment by European firms, together with the development of North Sea Oil, has led to increased exports of American industrial plant and machinery to the Community.

4. Agricultural Trade. The US surplus with the Community in the agricultural sector has been steady at just over $ 5.0 billion for some years (1976 $ 5.2 billion, 1977 $ 5.2 billion, 1978 $ 5.1 billion). The surplus for nine months 1979 was $ 3.7 billion, which, given the seasonal nature of the agricultural trade, indicates a figure for the full year of about the same order. Since US export prices for most products were appreciably higher in the first 9 months of 1979 than 1978 the expected total value of exports to the Community, about the same as for 1978, may mark a drop in real volume. For example, exports of wheat to the EC for the crop year 1978/79 (October 1978 to September 1979) at 2154 thousand tonnes were down by 17% from 2605 th. tonnes in crop year 1977/78, though the value of these exports fell by 1.9% from $ 318 to $ 312 million, and soybean exports fell in 1978/79 to 8558 th. tonnes from 9024 th. tonnes in 1977/78, a drop of 5.2%, although the value rose by 6% to $ 2285 from $ 2155 million.

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[1] US trade figures are on FOB-FOB basis

[2] EC trade figures are on FOB (exports) - CIF (imports) basis

EC-US Import Export Trade by Member States

9 months 1979, 9 months 1978 : $ Million : Source SOEC

		1979 Jan-Sept.	1978 Jan-Sept.
Imports from USA	Germany	7.369	5.703
	France	5.844	4.320
	Italy	3.683	2.626
	Netherlands	4.007	3.287
	Bel/Lux.	2.793	2.004
	United Kingdom	8.729	6.894
	Ireland	551	380
	Denmark	683	610
	EC TOTAL	33.661	25.824
Exports to USA	Germany	8.172	7.148
	France	3.444	3.119
	Italy	3.268	2.675
	Netherlands	1.346	1.232
	Bel/Lux.	1.525	1.359
	United Kingdom	6.089	4.849
	Ireland	250	264
	Denmark	523	492
	EC TOTAL	24.617	21.137
Balance with USA	Germany	803	1.445
	France	- 2.400	- 1.201
	Italy	- 415	49
	Netherlands	- 2.661	- 2.055
	Bel/Lux.	- 1.268	- 645
	United Kingdom	- 2.640	- 2.045
	Ireland	- 301	- 116
	Denmark	- 160	- 118
	EC TOTAL	- 9.044	- 4.687

EC-US Import-Export Trade : by EC Member States

(Mio $)

	1972	1973	1974	1975	1976	1977	1978
Imports from USA (c.i.f.)							
Germany	3 373	4 588	5 396	5 788	6 971	6 922	8 197
France	2 185	3 099	4 102	4 082	4 721	4 894	5 968
Italy	1 596	2 309	3 132	3 361	3 430	3 283	3 817
Netherlands	1 409	2 133	2 959	3 474	3 627	3 890	4 555
Belgium/Luxemburg	873	1 246	1 941	1 954	2 166	2 428	2 794
United Kingdom	2 948	3 977	5 886	5 997	6 374	6 662	8 877
Ireland	162	192	247	272	358	381	534
Denmark	360	523	601	630	637	760	812
EC Total	12 905	18 068	24 262	25 558	28 286	29 220	35 554
Exports to USA (f.o.b.)							
Germany	4 327	5 672	6 696	5 349	5 722	7 842	10 013
France	1 382	1 689	2 241	2 044	2 527	3 266	4 273
Italy	1 822	1 912	2 311	2 283	2 403	3 002	3 990
Netherlands	629	852	1 307	965	1 139	1 497	1 657
Belgium/Luxemburg	986	1 258	1 584	1 174	1 164	1 571	1 849
United Kingdom	3 041	3 727	4 132	3 911	4 431	5 386	6 626
Ireland	153	208	256	195	231	273	350
Denmark	354	448	451	459	531	582	674
EC Total	12 693	15 766	18 977	16 380	18 149	23 419	29 432
Balance							
Germany	954	1 084	1 300	- 439	-1 249	920	1 816
France	- 803	- 1 410	- 1 861	- 2 038	-2 194	-1 628	- 1 695
Italy	226	- 397	- 821	- 1 078	-1 027	- 281	173
Netherlands	- 780	- 1 281	- 1 652	- 2 509	-2 488	-2 393	- 2 898
Belgium/Luxemburg	113	12	- 357	- 780	-1 002	- 857	- 945
United Kingdom	93	- 250	- 1 754	- 2 086	-1 943	-1 276	- 2251
Ireland	- 9	16	9	- 77	- 127	- 108	- 184
Denmark	- 6	- 75	- 150	- 171	- 106	- 178	- 138
EC Total	- 212	- 2 302	- 5 285	- 9 179	-10 137	-5 801	- 6 122

Source : Eurostat : Monthly Trade Bulletin : Special Number 1958-197

Visit of Mr. Brunner to U.S.A.

Subject : EC-USA Trade Problems

Mr. Brunner's visit is being made at a time when commercial relations between the Community and the US are at a particularly sensitive stage. During the period of the Multilateral Trade Negotiations and afterwards during the ratification period, protectionist pressures were contained. Now however with the US Trade Agreements Act fully operative, and the US administration having declared its intention to extract to the full its rights under the GATT agreement, Community trade in the USA faces some serious difficulties. These are worsened by the two facts that the US is moving into recession, and that 1980 is an election year.

Short analyses of some of the more important problems follow.

I. Industrial Sector

1. Steel

Community exports of steel to the US in 1979 were some 2,00 million net tons below those of 1978. Total US imports from all sources fell by 3,6 milion net tons, but imports from Japan and Canada (the other major suppliers) were stable.

The US present import regime is based on a system of trigger prices. If import prices are lower than the trigger, anti-dumping procedures are called for. The Community has agreed to live with this system, although there appear to have been distortions caused by its administration. There were no increases in the trigger prices in the spring and summer of 1979, when US domestic prices were increasing, so substantial orders were placed then for delivery later in the year. At the end of the year, when US producers were offering rebates on list prices, import orders fell back to year - earlier levels.

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It is still under debate whether the trigger price mechanism will be continued or replaced and if so in what form. The Community is naturally anxious that any changes should not be discriminatory against EC exports.

US producers have been threatening to lodge anti-dumping petitions of the traditional kind against EC importers. Under pressure from the US administration, they have so far refrained from doing so, but could file complaints in the very near future. It does appear that a portion of Community exports is vulnerable to anti-dumping measures.

2. Special steels

A different situation exists with the special steels(stainless steel, alloy tool steel). Quotas were enforced for import under a system imposed for the three year period June 1976 to June 1979, and extended to 13 February 1980. These restrictions very effectively limited imports (their share of the U.S. fell from 18% in 1975 to 10% in 1979).

Since the US special steel industry is prospering there appears to be no justification for extension of the restrictions, but some form of measure to maintain market stability remains a possibility. The industry has officially asked for the trigger price mechanism to be extended to special steels, and although the administration has not yet declared its intention, it seems likely that special steels will be included in the arrangements to be made for the broader category.

3. Shoes

In 1979, the U.S. was faced with a rapid growth of imports of shoes, partly as a result of a fashion phenomenon, a "craze" for a type of light, inexpensive ladies'shoes known as "candies". The threat to the U.S. industry was the subject of discussion between the Commission and the U.S. administration on several occasions. It appears that a

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natural diminution in U.S. imports from E.C., apparent quarter of 1979, will resolve the difficulty. Contact will remain open and there will be further consultations probably at the end of April.

Imports into U.S. of shoes from Italy (by far the greatest proportion of imports from E.C.) in million pairs, were :

	1978	1979	Growth % 1979/1978
Jan-March	16.3	27.9	+ 71
April-June	13.9	25.9	+ 85
July-Sept.	15.8	26.4	+ 67
Sept.-Dec.	17.9	16.7	- 7

4. Float Glass

In January and February 1979 the U.S. Customs Court ruled in favour of Treasury in the countervailing duty cases concerning float glass from Germany and the UK. In doing so, this Court confirmed a determination of 1975 by the U.S. Treasury that German and British regional aid programmes were not "bounties or grants" under the then prevailing countervailing duty statute. On 29 November 1979 the U.S. Court of Customs and Patent Appeals (CCPA) reversed the decision of the lower Court in the German case and remanded it to the Customs Court for further proceedings.

The Commission has formally supported an initiative by the U.S. Justice Department to ask the CCPA for a rehearing which the Court has however rejected.

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The result of this situation is that under the now prevailing U.S. Trade Agreements Act liquidation of customs entries have been suspended until the ITC has ruled on the injury aspect. Should the ITC consider the case on a non-priority basis then EC exports would have to wait until 3 years in order that their case be cleared. (This supposes that no injury will be found, which is the most likely scenario). Meanwhile float glass imports into the U.S. from Germany and the U.K. (and other Community countries whose case is still in the pipeline) may have been totally stopped.

It is an irony that E.C. exports in a case where no subsidy has been found will be treated less favourably than waiver cases.

Trade involved is about $ 2.4 million per annum. It should be noted that imports in Germany of float glass from the U.S. are about 30 times as much.

4. Acrylic Yarn : in an anti-dumping case brought against imports from Italy, sales at less than fair value and also injury to the domestic injury have been found.

5. Steel I-Beams from Belgium : a decision by the Commerce Department in an anti-dumping case that there were no sales at less than fair value has been contested by the petitioner.

6. Melamine : Commerce Department has found sales at less than fair value in an anti-dumping case against imports from the Netherlands. The injury determination is awaited.

7. Chains and Parts : countervailing duties are in force against imports of chains and parts from Italy following a decision of October 11, 1977.

8. Screws : a similar situation applies to screws from Italy : the decision was made on August 9, 1976.

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9. Leather Wearing Apparel : following an escape clause action, duties will presumably be increased for articles valued not over $ 150 for a period of three years from 17 Jan 1980, to 25% for the first year, 20% for the second, 15% for the third. This decision involves $ 10.9 million of trade from the E.C. (1978) of which $ 4.7 million originated from Italy, $ 3.5 from U.K., $ 2.0 from France.

10. Porcelain enamelled steel cooking ware.

On 2 January 1980, also following an escape clause action, additional duties were imposed on these articles, where valued at under $ 2.25 per pound, of 25 cents per lb in the first two years following imposition, 20 cents in the third, 15 cents in the fourth, and 10 cents in the fifth. E.C. trade of $ 5.9 million, from France, Italy, Germany and Denmark may be involved.

11. Other industrial products affected by U.S. actions are

Certain steel products ;
Compressors and parts ;
Die presses;
Refrigerators freezers and parts;
Ski lifts and parts ;
Steel units for electrical transmission towers ;
Steel welded wire.

In each case, the product is the subject of a countervailing action and the Member State involved is Italy.

12. Buy American Legislation : On November 6, 1978, the "Surface Transportation Assistance Act" was signed into law. It provides for expenditure of 3-5 milliard dollars per annum on public transport systems, and contains a provision imposing a 10% preference for domestic suppliers to projects carried out by state or local authorities, and supported by federal assistance. The Commission has argued that this is in violation of the exchange of letters between the U.S. and the Community on government procurement, made in the framework of the MTN.

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An Italian firm, Breda, which has sold a metro system to Cleveland, and is in processing of selling one to Washington D.C., has coped with the domestic preference system as it has operated to date, but is concerned about any tightening of the rules. Such a tightening has been urged by U.S. industry, which wishes to see the rules applied not only to components (e.g.a. propulsion system) but to sub-components (e.g. parts of engines).

13. American dual-pricing system for oil.

The Community has experienced problems arising from the US regulation of prices of oil and natural gas.

Rapid increases in imports from US of certain synthetic fibres into certain Member States are attributed to the effects of this, as American firms derive a cost advantage which allows sale prices in Europe well below the domestic level. Consultations under article XXIII of GATT failed to provide remedies.

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II. EC actions prejudicial to US exports

1. Synthetic Fibres

(see paragraph I.13 above)

For the UK the Commission has agreed to restrictions on imports based on GATT article XIX, for two products. An application for approval of restrictions for a third product was refused. The subject was discussed by the Council on 19 March, but no further decision was made. It is possible that Italy may also ask for restrictions.

Evidence was found of dumping of acrylic fibres by a US firm, American Cyanamid, and provisional anti-dumping duties were applied from 30 November 1979.

2. Other anti-dumping actions

An enquiry against imports of saccharin by an American firm has resulted in agreement by the firm that they were guilty of dumping. A settlement is being negotiated.

The results of an enquiry into imports of quartz crystal units by US firms are being assessed.

After an enquiry on imports of acrylic fibres, one firm has given a price undertaking, but provisional anti-dumping duties have been imposed on the second involved. The information is currently being updated before a final decision is taken on whether to accept price undertakings or impose definitive duties.

An investigation into allegations of dumping of liquid fertilizer (aqueous solution of ammonium nitrate and urea) has been opened and is still at a fairly early stage.

A case was recently closed with imposition of definitive duties on imports of lithium hydroxyde.

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III. Agricultural Problems

1. Poultry

The question of the Community's restitution payments for poultry exports continues to cause problems, following the adjustment of the level of payment and of the list of qualifying destinations made in January. The Commission has insisted that it has no intention of following an aggressive campaign to market poultry meat. There is now a mechanism which permits immediate knowledge of developments, especially in new markets, and the Commission is ready to consult with the U.S. on any point of difficulty.

2. Canned Hams

On this subject also, the difficulty arises from American objections to restitution payments, which were raised slightly for export to US in October 1979. This followed a diminution of these exports from 105.000 tonnes in 1973 to 46.000 tonnes in 1978, and in fact they fill again to 34.000 tonnes in 1979. American reactions were hostile but no action was taken.

There exists in this case a waiver on countervailing duties imposed after an enquiry in November 1975. The matter is further complicated by the threat that the US authorities might link this waiver with the problem of poultry restitutions (see above).

3. Oranges

The U.S. exports a small amount of oranges (34.000 tonnes in 1978) to the Community, and is concerned that on the adhesion of Spain, these exports will be threatened. It is thought that these fears are not well grounded, as EC imports from US are received principally between May and October, while imports from Spain in this period are at their lowest.

4. Raisins and Almonds

Potential problems from the adhesion of Mediterranean countries are also feared for these products. On the adhesion of Greece, raisins will become the subject of the regulation organizing Community markets in processed fruits and vegetables, and the Americans for their exports will be affected. It is argued from the Community side that raisins from Greece already enter the Community duty-free (U.S. raisins face a tariff of 4%) and benefit from Greek government aids, but fail to damage US exports.

For almonds, it is on the adhesion of Spain that the U.S. fears competition. There is however within the Community an existing member also sensitive to Spanish competition in almonds, Italy, which with the U.S. is one of the two greatest world producers. For the moment no reply can be made to U.S. anxieties due to this sensitivity.

5. Vegetable Oils

Two American preoccupations exist. The first is the viewpoint expressed by the Commission in its introduction to a communication to the Council (4 December 1979) on the management of the agricultural policy that certain difficulties in the dairy sector arose from lack of coherence in policies between this sector and that for animal and vegetable oils, and suggesting that there ought to be discussions with producers of soya to obtain a balance between imported feedstuffs and Community with production. Such discussions would have as their object a staged reduction over several years of imports into the EC of soya.

The second point is the result of certain as yet inconclusive proposals to cope with a potential excessive production of olive oil after adhesion of Spain by the use of a subsidy, which could be paid for by a tax on vegetable oils, produced in the Community or imported.

The first of these measures if adopted would weigh on U.S. soya exports. The second would however be less grave for soya than for other vegetable oils, since imports of soya into the Community are intended firstly for use as meal for animal feed, the oil being in a sense a by-product. This would raise the competitivity of soya against other oils such as palm-nut.

6. Other Community agricultural exports threatened by US actions:

Countervailing duty investigations are also being undertaken, and are at varying stages, against the following products from the EC:

- corn starch derivatives
- butter cookies from Denmark
- dairy products
- frozen beef
- potato starch derivatives
- tomato products
- barley from France
- molasses from France
- spirituous beverages from UK and Ireland
- sugar