

441.2(103)

**VISIT TO THE COMMISSION BY THE VICE-PRESIDENT
OF THE UNITED STATES, MR GEORGE BUSH**

The Vice-President of the United States, Mr George Bush, will visit the Commission on 2 October 1987 at the end of a tour which will have taken him to the main European capitals.

He will hold talks with the President of the Commission, Mr Jacques DELORS and Mr Willy DE CLERCQ, the Member of the Commission with special responsibility for external relations and trade policy.

These meetings will be an opportunity to review at political level the various problems of international trade (Uruguay Round, protectionism, agriculture) as well as the range of problems affecting bilateral relations between the Community and the United States.

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 with 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, a number of 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 years 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 OF 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.

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 20 351 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 a number of problems that were blighting relations between them.

STEEL

Since early 1985, steel has become 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, 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 pasta 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.

- 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.

Thanks to this arrangement, both sides have lifted the retaliatory measures they had imposed on the other.

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.

Nevertheless, on 15 May 1986, the United States imposed non-restrictive quotas on a number of Community agricultural products. The Community retaliated on 16 June by introducing "ex-post" surveillance on a number of US products.

At the same time, the US administration announced it was going to bring in measures to suspend its tariff bindings on other agricultural products so that it would be in a position to increase the tariffs after 1 July that year if a solution had not been found by this date. The Community prepared a retaliatory package that would hit corn gluten feed, soya cake, rice and almonds in particular.

These retaliatory measures did not come into force since on 1 July, the two sides reached agreement on an interim solution lasting until 31 December 1986. A further four-year interim agreement followed in January this year.

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, 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, believing 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, the date on which refunds for exports of pasta products to the United States were reduced to 27.5%. The United States, for its part, undertakes not to take any measures against European exports of pasta products and not to reopen the dispute at GATT level.

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 under both Article XXI/2 and the Anti-dumping Committee.

* 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 will spend more than US\$ 7 000 per head of the farming population, while the Community will 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 24 % 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 have 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 has shrunk from 49 % in 1981/82 to 29 % in 1985/86, it is hardly the Community's fault since the Community's share has remained steady during this period at about 14 %. The US had 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 - 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.

*** 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 these 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.

- **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 neither of these directives is discriminatory since they apply both within the Community and to non-member countries. Moreover, they have been adopted for reasons of health and consumer protection. Discussions on this subject will continue.

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 which a GATT panel has declared to be contrary to the United States' international obligations, and the "customs user fee" measure which, in fact, is a supplementary customs duty and which is currently being discussed by a panel.

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

	1984		
	IMPORTS	EXPORTS	BALANCE
France	9066	11090	2024
Belgium-Luxembourg	4483	4465	- 18
Netherlands	7568	4765	-2803
Germany	13528	24954	11426
Italy	7114	12679	5565
United Kingdom	18627	19602	975
Ireland	1896	1333	-563
Denmark	1333	2326	993
Greece	420	485	65
Portugal	971	686	-285
Spain	3922	3146	-777
TOTAL	68929	85531	16601

	1986		
	IMPORT	EXPORT	SOLDE
France			
Belgium-Luxembourg	7961	8977	1015
Netherlands	3712	3714	1
Germany	6508	3914	-2594
Italy	11747	25943	14196
United Kingdom	5796	10673	4877
Ireland	13960	15462	1502
Denmark	1526	1117	-409
Greece	1157	1899	742
Portugal	348	408	59
Spain	657	513	-143
TOTAL	3278	2518	-759
	58654	75142	18487

	1987 (5 months)		
	IMPORT	EXPORT	SOLDE
France			
Belgium-Luxembourg	3175	3467	292
Netherlands	1724	1425	- 299
Germany	2753	1381	-1372
Italy	4913	10072	5159
United Kingdom	2352	3699	1347
Ireland	5722	6102	380
Denmark	687	397	- 290
Greece	527	674	147
Portugal	117	139	22
Spain	226	189	- 37
TOTAL	1423	908	- 515
	23619	28451	4832

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 (including oilseeds)	5620	649	- 4971
Mineral fuels	2841	3200	+ 359
Vegetable and animal oils	186	95	- 91
Chemicals	6087	5333	- 754
Basic manufactures	3856	11313	+ 7457
Transport equipment and machinery	23415	32872	+ 9457
Other manufactures	6892	12232	+ 5340
Not elsewhere specified	3515	4786	-1271

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.