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COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Working document

on

the state of EEC/USA economic and trade relations

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I. Introduction

1. The Committee on External Economic Relations has always attached outstanding importance to the Community's relations with its most important trading partner, the USA, which in 1980 alone accounted for 14.2% of total EEC trade. The committee reported to the European Parliament on this subject at plenary sittings in July 1972, October 1973 and January 1977¹ and has regularly forwarded recommendations on current work to Parliament's delegation for relations with the United States Congress².

2. Greater similarity in this economic structure and the growing interdependence of international trade mean that the USA and the EEC are now experiencing economic recession not as before at different points but increasingly at the same point in their economic cycle. It then only needs overlapping or conflicting trade interests to provoke or exacerbate crises in their bilateral relations. Thus in recent months the European Parliament has on several occasions commented, *inter alia*, on problems affecting individual aspects of these relations, such as agriculture and the steel trade³.

3. It is a matter of particular concern that the sometimes hectic consultations between the Commission and the American Government totally failed to reduce tension, particularly in the abovementioned areas. The Committee on External Economic Relations is therefore taking the opportunity presented by two motions for resolutions submitted to it to analyse in detail EEC/USA economic and trade relations⁴.

II. American economic trends

4. To analyse the bilateral economic relations it is also essential to investigate the economic and political situation in the USA. Although the Political Affairs Committee has produced a report dealing with the political aspects of this question⁵, a brief account should nevertheless be given of some of the fundamental political shifts in the USA and the Community.

¹ OJ No. C 82, 26.7.1972, OJ No. C 95, 10.11.1973, OJ No. C 30, 7.2.1977

² See most recently PE 76.036/rev. of 9 December 1981, p.9 ff.

³ See most recently OJ No. C 66, 15.3.1982, p.58/59

⁴ Doc. 1-954/81, motion for a resolution by Mr de La Malène and others
Doc. 1-1091/81, motion for a resolution by Mrs Poirier and others

⁵ See PE 77.722 Gredal report

5. At its eighteenth meeting with the delegation from the US Congress in May 1981 in Washington the European Parliament delegation was confronted with fundamental changes in the foreign policy thinking of the American Government. These changes may be outlined as follows:

- the new government is convinced that the liberal policy pursued by previous governments cannot adequately safeguard American foreign trade interests;
- the US is conducting an extreme form of ideological campaign against all types of subsidy and export credits;
- because of its bias towards economic matters the new government seems to be less prepared, despite verbal statements to the contrary, to oppose protectionist trends in the USA.

6. These guidelines should be seen in conjunction with a further important aspect - the growing shift of power in the USA away from the upper class East Coast war and post-war generations towards the south and west of the country. The accompanying gradual switch of interest from the Atlantic to the Pacific Ocean is not of course conducive to finding a solution to the conflicts in the USA's current relations with Europe. In addition, the Americans feel that there is a lack of solidarity on the part of Europe in the field of foreign and defence policy and also growing hostility to the USA.

7. The state of the American economy and the ever-growing pressure exerted on the countries of Europe must be seen against this background. As in Europe, the American economy is faced with major structural and short-term economic problems, to which the Reagan Government has as yet failed to find an effective solution. The measures so far introduced - cuts in taxes and government expenditure and comprehensive streamlining of the administration - are not having the expected effects.

The American economy is still in recession. Industrial production fell by 0.8% in March 1982, a fall of 8.3% compared with July 1981. Industrial capacity is being utilized at a rate of 71.4%. Nearly all sectors are affected, in particular the production of consumer durables (-1.7%), the manufacture of industrial goods and the extraction of raw materials (-1.1%).

Only production for the defence and space programmes is increasing. In the last quarter of 1981 and the first quarter of 1982 the gross national product fell by an average of 4%.

Unemployment rose in March 1982 to a record level of 9% (February 1982: 8.8%). The number of unemployed now totals 9.9 million, two million more than in July 1981.

Experts are baffled by the continued high interest rates - now at 16% - since the slowing down of inflation seems to be having no effect. Indeed, this is the only sector in which the government has had any success: between January and March 1982 the rate of inflation fell to 3.6% (October to December 1981: 9.5%).

8. Having achieved spectacular success in 1981, President Reagan is encountering growing opposition in Congress to his budgetary policy. On 30 April 1982 a compromise agreement between Congress and the President concerning the presentation of the 1982/83 budget collapsed. The points in dispute are, in particular, the President's insistence on tax reductions, the major cuts in the social sector, increases in defence spending and the resulting budget deficit. A deficit of US \$ 98,600 m is expected for the current financial year. The figure for 1983 is US \$ 91,500m, for 1984 US \$ 83,000 m and for 1985 US \$ 72,000 m.

9. Despite a 6% growth in exports the American trade balance showed a deficit in 1981 of over US \$ 40,000 m, the largest deficit in American trade history. Like the Community the USA is exposed to pressure from exports from the newly growing industrial nations, above all Japan. Last year Japan achieved an export surplus of US \$ 13,400 m in its trade with the USA. This partly explains the emergence of a protectionist lobby in the American Congress and Government. This lobby has been active for some years, since many Americans felt that the USA came off second best in the negotiation of concessions at the last two GATT Rounds (the Kennedy and Tokyo Rounds). The lead gained by Europe and Japan on world markets, partly also as a result of distortions in exchange rates, strengthened this feeling, particularly since under the Nixon Government the US trade balance showed a deficit for the first time. Widespread frustration in the USA at what was seen as unfair treatment in international trade brought a new slogan into the discussions: reciprocity.

A controversial Congress initiative seeks to ensure that reciprocity is firmly established in the future as a principle of American trade policy. In hearings before the Senate Financial Committee's subcommittee on commerce the government rejected a tightly defined concept of reciprocity based on 250 bills, whereby American countermeasures would automatically be taken against countries using restrictive and discriminating trade practices. However, William Brock and Secretary of Commerce Malcolm Baldrige supported the aim of equal access to the market, an aim that they will defend in particular at the forthcoming GATT Conference in November 1982.

In a verbal note on this matter the Commission referred to the dangers of reciprocity as a protectionist instrument, since not only does it in general run counter to GATT but, in particular, if strictly applied it would destroy the basis of this multilateral trading system, which rests on the principle of exchanges of concessions between sectors.

10. In addition to the aspects of American foreign trade policy already mentioned, the clearest goals pursued by this policy concern the state-trading countries. They are based on the restriction and tighter control of exports of western technology to these countries and in general on the exertion of greater pressure on the Soviet Union in the field of foreign trade policy. In recent months the USA has also emphasized the importance of credit policy and is seeking in the context of the OECD to tighten up credit terms, particularly as applied to the Soviet Union (this point is dealt with again below¹).

11. The Committee on External Economic Relations has already pointed out that this tough US policy on technology and credit with regard to the Soviet Union clearly contradicts the US position on grain supplies to that country². Under pressure from American farmers not only did the US supply 14 m t (in the context of existing contracts involving 23 m t) but it also sought negotiations on further long-term contracts.

It is difficult for the European countries to understand how the USA can expand its grain trade with the Soviet Union while calling for embargoes against that country, e.g. because of the Polish crisis, and seeking to prevent the European gas/pipe trade with the USSR.

¹ See p.10

² See PE 76.036/rev., p.5

III. EEC/USA economic and trade relations

12. Following the Community's extremely high trade deficit with the USA in 1980, which amounted to US \$ 24,800 m, there has been some improvement in the situation, partly as a result of the rise in the dollar. According to the estimates so far available, imports from the USA fell by 5.5% to US \$ 58,700 m, while Community exports to the USA rose by 10% to US \$ 41,100 m. As a result the Community's trade deficit fell by 29% to US \$ 17,600 m¹.

As mentioned at the beginning, two problems are at present in the forefront of bilateral consultations and have also been raised in the European Parliament on several occasions. These are agriculture and the steel sector. Since, as already described, American understanding for the problems facing Europe seems to be diminishing and the recession, with the accompanying decline in production and loss of jobs, is prompting adverse political comment in both the USA and the Community, both partners must make special efforts this year at the highest level to prevent the ever-growing threat of a trade war or, more generally, the disruption of the present multilateral trading system. In this connection the European Parliament, in particular its delegation for relations with the US Congress, has an important if critical role to play and one that can promote understanding and act as a moderating influence.

13. What is the state of bilateral relations in the agricultural sector? The answer to this question must take account of the fact that, like their European counterparts, American farmers are having to contend with serious problems. For the first time for three years the American Government has requested them in the coming crop year to reduce the area under cultivation for wheat, fodder cereals, cotton and rice by between 10 and 15%².

As a result of inflation, high interest rates, the strong dollar and record harvests over a period of several years, agricultural net incomes in the USA fell to a total of US \$ 19,000 m in 1981 (US \$ 27,400 m in 1979, a record year), their lowest level since the deep depression in the 30s. The farmers' coffers are empty and total debts in the agricultural sector amount to US \$ 195,000 m.

¹All figures are in comparison with 1980; see also statistical annex

²The restriction on cultivation, in itself voluntary, contains an element of compulsion in that farmers who do not participate forfeit their right to direct compensatory payments.

According to the Secretary of Agriculture, Mr Block, low farm prices are forcing producers to reduce supplies. Budgetary policy also plays a major role in this connection, since the subsidies which under agricultural law become operative when prices fall have necessitated unforeseen expenditure of more than US \$ 1,000 m.

14. This, together with the US Government's foreign trade policy, has a decisive influence on bilateral relations and explains the massive pressure being exerted by the Americans on the Community's agricultural policy. Despite the agreements concluded in the Tokyo Round of GATT, the common agricultural policy is accused of

- closing the EEC market to American exports,
- falsifying the world market price system, and
- by creating and marketing Community surpluses on the world market, causing dumping and unfair conditions of competition for American exports.

This final point has led to a series of actions brought by the USA in the context of GATT concerning, for example, wheat flour, pasta, poultry, candied fruit and grapes. The USA has so far refused to accept the Community's counter-arguments. The EEC takes the view that GATT does not prohibit export refunds provided they do not enable the countries concerned to obtain an 'unreasonable' share of the world market in the relevant products. According to US Agriculture Secretary Block, no share of the market can be described as 'reasonable' if it is achieved artificially with the help of public funds.

15. Other American complaints concern the system of Community preferences for citrus fruit from the Mediterranean countries. According to the US Government this EEC policy largely excludes American producers from the Community market. In this instance the Commission claims that any measures the Americans might take in this field would contravene the 1973 Casey-Soames Agreement between the EEC and the USA concerning the EEC Mediterranean preference agreement.

On 29/30 March 1982 the deputy US Secretary of Agriculture, Mr Ling, had heated discussions with the Commission on these and other matters. Following his return to the USA he threatened the possibility of a trade war unless the Community changed its 'export subsidy policy'.

16. On 19 April 1982 the US Senate submitted a resolution to President Reagan

stating its position on a further contentious area of agricultural policy, that is, the Commission's plans to stabilize imports of cereal substitutes for animal feed. American maize for fodder accounts for 95% of EEC imports of this substitute product, which have soared in recent years from 0.7 m t in 1974 to 2.9 m t in 1981. To prevent a further increase in these imports the Commission has asked the Council for authorization to open negotiations with the USA pursuant to Article XXVIII of GATT¹.

17. A further persistent area of conflict in EEC/USA bilateral relations is the steel trade. For fifteen years the American steel industry has been resisting imports from third countries, particularly Europe, by regularly bringing antidumping proceedings before the American International Trade Commission aimed at preventing, reducing or at least disrupting these imports.

Taking account of the structural problems facing the steel industry in all major producing countries and in order to ensure properly disciplined trade, an agreement was reached in 1977 in the OECD which was based on the following principles:

- priority should be given to restructuring measures. Producer countries should cooperate in this field and should not introduce any national support measures which would adversely affect other producer countries;
- all direct measures must be compatible with the objective of restructuring and should not undermine free trade;
- particular attention is devoted to the fixing of prices. All measures in this field must take account of traditional trade patterns.

In accordance with this agreement the Community instituted a series of price and restructuring measures and the USA introduced a trigger price mechanism for imports. These were not ideal solutions but represented an acceptable compromise.

18. In 1978 and 1979 the American trigger price mechanism worked fairly satisfactorily. However, on 21 March 1980 it had to be suspended as a result of anti-dumping proceedings brought by the US Steel Corporation against producers in the

¹ Since maize for fodder is consolidated in GATT and can at present be imported into the EEC duty free and without quantitative restrictions.

Community. At this point the Committee on External Economic Relations examined the bilateral steel trade in detail and, following the withdrawal of the complaints by US Steel, accepted, subject to certain reservations, the reintroduction - at an excessively high level - of the trigger price mechanism at the end of 1980¹.

19. The foreign trade figures clearly reveal the losses incurred by Community steel exports to the USA over the period in question. Exports showed a constant decline from 7.5 m t in 1978 to 5.4 m t in 1979 and 3.9 m t in 1980. When, as a result of the market situation, EEC steel producers succeeded in bringing their exports to the USA back up to a total of 5.1 m t for the first ten months of 1981², the American industry again instituted a large number of antidumping proceedings designed to curb imports.

On 12 January 1981 the seven largest American steel firms lodged antidumping complaints with the USA International Trade Commission against producers in Belgium, France, Italy, Luxembourg, the Netherlands, the United Kingdom, the Federal Republic of Germany, Spain, South Africa, Brazil and Rumania. The US Steel Corporation alone unloaded four hundred boxes of 'evidence' in front of the entrance to the Trade Commission. The total of 92 complaints concerned up to 84% of Community steel exports to the USA.

The somewhat weak arguments and evidence on which the complaints are based make it doubtful that the EEC was guilty of dumping. What seems much clearer is that the American producers' real aim is seriously to disrupt and finally to achieve a drastic reduction in imports.

20. On 8/9 February 1982 Commissioner Haferkamp and Commissioner Davignon attempted to clarify the situation in Washington but with little success. In a debate on 18 February 1982 the European Parliament declared itself to be extremely concerned at the situation that had arisen³.

¹ See Doc. 1-565/80 - Martinet report

- Although the Community welcomed in principle the reintroduction of the trigger price mechanism, it has nevertheless objected on several occasions to the excessively high level at which it was fixed. American market prices lay some 5-20% below the trigger prices and enabled American producers to make substantial profits.

² See Annex II

³ OJ No. C 66, 15.3.1982, p.58