

European Communities

441.2(103)_{EN}

EUROPEAN PARLIAMENT

SESSION DOCUMENTS

English Edition

1988-89

31.05.1988

SERIES A

DOCUMENT A2-0089/88

REPORT

drawn up on behalf of the Committee on External Economic Relations

on protectionism in trade relations between the European Community and the United States of America

Rapporteur : Dame Shelagh ROBERIS

PE 119.305/fin. Or. EN

A Series: Reports - 8 series: Motions for Resolutions, Oral Questions, Written Declarations, etc. - C Series: Documents received from other institutions (e.g. Cor. rations)

= Consultation procedure requiring a single reading

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Cooperation procedure (second reading) which requires the votes of the majority of the Members of Parliament

**I

Cooperation procedure (first reading)

Parliamentary assent which requires the votes of the majority of the current Members of Parliamentary

The following motions for a resolution pursuant to Rule 63 of the Rules of Procedure have been referred by the European Parliament to the Committee on External Economic Relations as the committee responsible:

Date	Doc. Nº	Tabled by	Opinion
25.10.1984	2-809/84	De Gucht	
25.10.1984	2-872/84	Früh and others	Committee on Agriculture, Fisheries and Food
13.11.1984	2-895/84	Maffre-Baugé and others	Committee on Agriculture, Fisheries and Food
12.12.1984	2-1020/84	Moorhouse	
11.2.1985	2-1469/84	Piquet and others	Committee on Agriculture, Fisheries and Food
11.3.1985	2-1689/84	Musso and others	Committe on Agriculture, Fisheries and Food
15.4.1985	B 2-13/85	Papoutsis	
10.7.1985	B 2-580/85	Lizin	
9.9.1985	B 2-663/85	Starita	
13.1.1986	B 2-1220/8	5 Mattina and Cervetti	Political Affairs Committee

At its meeting of 21 November 1984 the Committee on External Economic Relations decided to draw up a report and appointed Dame Shelagh Roberts rapporteur.

On 13 December 1985 the committee adopted an interim-report.

The committee considered the draft report at its meetings of 19 May 1987, 24 September 1987, 4 December 1987, 28 January 1988, 24 March 1988, 24 May 1988. At the last meeting it adopted the motion for a resolution as a whole by 17 votes in favour and 1 against, with 2 abstentions.

The following took part in the vote: Mr MALLET, chairman; Mr SEELER, 1st vice-chairman; Mr PONS GRAU, 2nd vice-chairman; Mr TOUSSAINT, 3rd vice-chairman; Dame Shelagh ROBERTS, rapporteur; Mr van AERSSEN, Mr BIRD, Mr CASSIDY, Mr ESCUDER CROFT, Mr GRIMALDOS GRIMALDOS, Mr HINDLEY, Mr LEMMER, Mr MOTCHANE, Mr PELIKAN, Mr PIMENTA, Mr ROSSETTI, Mr SARIDAKIS (deputizing for Mr Costanzo); Mr SELVA (deputizing for Mr Zarges); Mrs THOME-PATENOTRE, and Mr von WOGAU (deputizing for Mr Lemmer).

The opinion of the Political Affairs Committee is attached and the opinion of the Committee on Agriculture, Fisheries and Food will be published separately.

The report was tabled on 27 May 1988.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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	inion by the Political Affairs Committee	

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

A

MOTION FOR A RESOLUTION

on protectionism in trade relations between the European Community and the United States of America

The European Parliament.

- having regard to the different motions for a resolution tabled by its Members (1),
- having regard to the interim report by the Committee on External Economic Relations (doc. A2-149/85),
- having regard to the resolutions adopted on reciprocal Community-US relations (2) and furthermore having regard to its report on multilateral negotiations in GATT (3), and on the Airbus dispute (4),
- having regard to the report by the Committee on External Economic Relations and the opinions of the Political Affairs Committee and of the Committee on Agriculture, Fisheries and Food (doc. A2-89/88).
- A. recalling the common cultural, political and economic foundations of the European Community and the United States of America,
- B. recognizing that international trade liberalization and increases in international trade flows contribute to the optimum allocation of economic resources and strengthen therefore both production and employment,
- C. recognizing equally, however, that such evolution is only made possible by the existence of strong international bodies, of which the GATT and the IMP are major examples,

- 3) 9.9.1986 (O.J. n. C 255 of 13.10.1986).
- 1) 18.3.1988 (O.J. n. C of).

¹⁾ doc. 2-889/84, doc. 2-872/84, doc. 2-895/84, doc. 2-1020/84, doc. 2-1469/84, doc. 2-1689/84, doc. B2-13/85, doc. B2-580/85, doc. B2-663/85, doc. B2-1120/85.

^{2) 12.6.1986 (}O.J. n. C 176 of 14.7.1986). 22.1.1987 (O.J. n. C 46 of 23.2.1987). 19.2.1987 (O.J. n. C 76 of 23.3.1987). 17.9.1987 (O.J. n. C 281 of 19.10.1987).

- D. deploring the progressive weakening of the international economic system both by the abandonment of international currency stability guaranteed through the IMF and by the spread of restrictions to international trade, such as "voluntary export restraint" and "orderly marketing" agreements and international market sharing arrangements, which constitute departures from the GATT's multilateral principles,
- E. concerned at the development of bit/eteralism in various forms in international trade.
- F. noting that the economic costs of protectionist measures have been clearly outlined both in the GATT special report of March 1985 "Trade policies for a better future" and in the report "Costs and benefits of protective measures", adopted by the OECD Economic Policy Committee in March 1985; that such costs are usually higher than the short term benefits which can be obtained,
- G. having regard to the conclusions of the OECD Council meeting at ministerial level of 13 May 1987, and of the Venice economic summit of 10 June 1987,
- H. deeply concerned at the present fragility of the international economic environment, as typified by the crisis in World stock markets in the last months of 1987, and which is due to the present excessive influence of speculative capital flows on international trade regulting largely from the volatile nature of exchange rates.
- Stresses the importance of an harmonious development of EC/US trade, in order to strengthen world trade flows, defend the open multilaters! trade system and reinforce economic recovery;
- Declares that outstanding problems in EC/US trade relations must be dealt
 with in the context of negotiations, banning any unilateral action which
 would entail heavy risks of retaliation and counter-retaliation;

With regard to general trade policy:

- Is deeply concerned about the US trade bill, which contains, in the version adopted in Congress, measures providing for unilateral redefinition of GATT principles and dangerous trends towards sectoral reciprocity;
- 4. Fears that this bill accentuates the difficulties the US Administration is having in maintaining an open trade policy, but hopes that President Reagan will successfully veto any unilateral protectionist moves likely to affect the outcome of the Uruguay Round negotiations;
- 5. Considers that different traditions and methods, in the EC and in the US, respectively, regarding economic policy and in particular structural adjustment, account for important divergences in the trade legislation systems, and that common ground should be sought in GATT, by means in particular of a better definition of domestic subsidies;

With regard to the industrial sector:

- 6. Notes that most of the industrialized States and trading blocks, including the EC and the US, have used the possibility of imposing antidumping or countervailing duties on their suppliers in order to induce them to undertake so-called "gray area" arrangements such as "voluntary export restraint" and "orderly marketing" agreements, which are far less transparent than traditional tariff barriers;
- 7. Considers that the failure of the main industrialized States and trading blocks to adopt a coordinated approach to the economic recession of the early 1988's aimed at growth-led recovery, induced many to introduce covert forms of protectionism;
- 8. Considers that such measures, particularly frequent in the <u>steel</u>, <u>textiles</u>, <u>car</u> and <u>consumer</u> electronics <u>sectors</u>, though justifiable as short-term palliatives against the <u>sudden</u> collapse of important industries, nevertheless in the longer term tend to distort and ossify production and trade patterns, and entail considerable economic costs, while frequently hampering industrialization in some LDC's and providing unjustifiable bonuses to other suppliers;
- 9. Notes that, according to the World Bank 1987 Development Report "the striking fact about protection to preserve jobs is that each job often ends up costing consumers more than the worker's salary"; the report also states that this cost, in the US and the EC, has reached for certain protected sectors levels corresponding to between 4 and 10 times the average industrial wage;
- 10. Considers that the US/EC <u>steel agreement</u>, ending in September 1989, which resulted from the need to protect the US steel industry against an artificially high US dollar, has contributed to the international market-sharing in the steel sector, with heavy economic costs both for US consumers and EC workers and producers;
- II. Fears that in future other EC exports to the US, in particular machine tools and textiles, might be limited by means of a market-sharing approach, especially if the dollar exchange rate continues to fluctuate by a wide margin;
- 12. Stresses the fact that such protectionist measures have been found, in particular by the OECD studies, to be highly ineffective in maintaining employment in the protected sectors, while at the same time reducing employment prospects in the exporting industries;

With regard, in particular, to the "AIRBUS" case:

- 13. Considers that the GATT code on civil aircraft, in its present formulation, does not inhibit the financing of Airbus A-330/A-340 along the lines adopted;
- 14. Stresses the importance of the EC/US negotiations on the GATT code, aimed at increasing controls on State support, both direct and indirect, in trade of civil aircraft;

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15. Declares that any unilateral US measure imposing tariffs on Airbus imports, on the basis of subventions received, should be countered by parallel Community measures on US aircraft, which benefit from considerable public support;

With regard to the agriculture sector:

- 16. Notes that EC/US trade relations in the agriculture sector are subject to recurrent crises, and considers that a balanced and lasting settlement of the unresolved problems must be reached, respecting the principle of the comprehensive nature of the negotiations and reinforcing the discipline which GATT provides as regards agricultural products;
- 17. Considers that, following the initial proposals by the EC, the US and other contracting parties in the Uruguay Round, there should be the search for a common approach, based on the principles of the Punta de l'Este declaration, of the OECD ministerial communiqué and the Venice economic declaration:
- 18. Stresses the importance of the proposition by the EC to consolidate in GATT the level of farm support, and believes that the US proposition of total abolition over 10 years is unrealistic; considers however that the EC should table a new offer containing a schedule for reducing support by a fixed proportion within a set period of time;
- 19. Recalls its resolution of 13 December 1985, asking that "the 1955 GATT waiver (enabling the US to pursue domestic policies regardless of certain GATT dispositions), the US export subsidies program, and the CAP system of variable levies and refunds should be discussed in the multilateral trade negotiations of GATT":
- 28. Considers that, in order to avoid economic distortions and disruptive trade disputes, it is necessary that the main farm producers who are contracting parties to GATT, including the US and the EC, do not allow internal prices to stabilize at levels which are inconsistent with economic reality; il est aussi nécessaire qu'ils se concertent en vue de réduire les soutiens à l'agriculture et d'appliquer des mésures immédiates de stabilisation des marchés;
- 21. Underlines the action already taken by the EC on its markets in order to reduce surplus productions, and points in particular to the interconnection between its output "stabilizers" and the offer to consolidate support in GATT;
- Expects therefore the US to undertake equivalent action in order to reduce its support to surplus sectors;
- 23. Considers that the EC/US dispute on the EC hormone ban should be resolved on the basis of consumer and health interests, ascertained by an independent body, barring any "hidden protectionism"; they must also hold talks with a view to the reduction of support for agriculture and the immediate application of market stabilization measures;

Financial aspects

- 24. Notes that the sinking exchange rate of the dollar has produced a dramatic turnaround in the evolution of the US trade balance, and that competitivity of US exports, in particular in the manufacturing sector, has sharply increased;
- 25. Considers that protectionist measures in the US would exert upward pressures on the dollar exchange rate, delaying therefore the recovery in the US external balance and further deepening the present disequilibria;
- 26. Stresses that the present volatility of exchange rates carries unfavourable consequences for the world economy, in terms of financial costs and reduced investments, stresses also the lack of responsibility of the US Administration in the pursuit of fiscal policies since 1983, having regard to the dollar's role in the world economy;
- 27. Welcomes the reductions in the US budget deficit enacted on 22 December by President Reagan, but points to the fact that further reductions will be needed in the next years in order to reduce fundamental imbalances on world financial and merchandise markets;
- 28. Stresses the importance of the EMS as a zone of comparative stability, and considers that the strengthening of the ECU, in particular through its wider use in contracts and sales, as well as a widening of this zone, would be an important contribution by the Community in combating the consequences of exchange rate volatility;

On specific issues:

- 29. Expresses its opposition to the extraterritorial effects of the export administration act, and points out that the issue of US export controls on grounds of national security reasons will be dealt with in a specific report;
- 38. Remarks that the US/Canada free-trade agreement attempts liberalization in sectors such as services, investment and technology and indicates therefore a possible approach to liberalization in non-traditional sectors; stresses however that such bilateral approaches have to be examined in GATT and need to be coordinated with the multilateral negotiations in the context of the Uruguay Round;
- 31. Expects that the US, in conformity with the GATT Council decisions, will abolish in the near future its "customs users fee" as well as its discriminatory "super-fund levy" on oil imports;

In conclusion:

- 32. Reaffirms its belief that protectionism does not provide any lasting economic advantage to the State resorting to it, and is particularly misleading as the political debate rarely succeeds in making clear to the public the economic costs of protectionist measures and the way that the division of revenue between producers, workers and consumers will be affected by them;
- 33. Is concerned by the gradual weakening of the GATT open multilateral trade system, caused notably by the trend towards bilateralism and by the proliferation of "orderly marketing agreements" and "voluntary restraints", and maintains that the EC and the US could play an important role in the defence of free trade, by steadily reducing the use of such instruments which are by essence non-transparent, difficult to evaluate in political debate, and specifically geared to narrow sectoral interests; the EC and the US should also consult with the other producer countries in GATT to introduce greater discipline and transparency in their agricultural policies;
- 34. Considers that, for the future of EC/US relations in the context of the open multilateral trade system, a strengthening of the GATT dispute settlement system constitutes an absolute necessity:
- 35. Points out the contribution that the European Community will make to liberalization and transparency in the exchange of goods and services through the completion of its large internal market;
- 36. Calls for the completion of the internal market to be accompanied by a firm and consistent external policy towards the United States and other developed countries, based on the dual principle of openness and reciprocity and capable of ensuring the defence of the legitimate interests of the European Community, while increasing its contribution to the liberalization of international trade;
- 37. Instructs the President to forward this resolution to the Commission, the Council and the United States Congress and Administration.

EXPLANATORY STATEMENT

I. GENERAL REMARKS

1. Introduction

"Free trade enriches our lives. Through free trade we obtain the widest possible range of goods at the lowest possible prices. Free trade raises the standard of living in all countries. Ultimately it is the consumer who benefits from free trade - and who pays when countries depart from it.

Free trade promotes economic efficiency. It encourages capital, labour and other resources in every country to flow to their most productive use. Where markets are allowed to work freely, the principle of comparative advantage assures a global division of labour that maximizes output ... through free trade we can specialize in what we do best and avail ourselves of the best products available anywhere."

This quotation from a recent speech by US Deputy Secretary of State John C Whitehead (5) is a good summary both of the classical arguments in favour of free trade, and of the commitment of the present US Administration to those principles.

On the European side, the defence of free trade, and in particular of the open multilateral trading system as embodied in the rules of GATT, is equally felt to be one of the main tasks of trade policy, in order to ensure a continuation of the unprecedented economic development experienced in the last forty years.

It may seem therefore surprising that, both in the EC and in the US, there is a deep feeling of frustration over trade practices on the other side of the Atlantic which are felt to be protectionist in character, thus frequent trade disputes continue to occur and the danger of a spiral of retaliation and counter retaliation measures is always present.

It is my intention to examine more closely the climate of EC/US trade relations in order to identify the main problem areas and to analyze underlying conflicts or misunderstandings, and to work out some proposals in order to avoid confrontations which would be against the interests of both parties involved.

2. Protectionism and fair trade

Protectionism has become a very unpopular theory since the Great Depression: almost no one would openly admit now to being protectionist; both in the US and the EC, however, the reaction to economic crisis and in

⁵⁾ Remarks to the Conference on International Trade in Wilmington, Delaware, 3 November 1987.

particular to shifting patterns of comparative advantages in production and to the need of industrial adjustment has entailed considerable protectionist measures and recurrent demands for even more.

In the US the role of the State in industrial adjustment is limited almost exclusively to commercial policy, i.e. to measures at the border. The central concept which is employed in this process is that of "fair" trade and of relief to be offered to domestic industries being injured by "unfair" foreign competition.

The US trade policy is therefore characterized by a strong legalistic element and several reforms since 1921 have worked towards weakening the role of the executive in permitting access to trade legislation and import relief (6). The successive reforms included establishing an independent body, the International Trade Commission, in order to assess injury and detailed definition of the criteria to be used in antidumping/countervailing duty cases, in order to increase the objective elements in the procedures and to remove as far as possible any discretionary elements in implementing the legisation against unfair trade.

The principal assumption underlying this approach was that "fair trade" is an objective principle and that breaches to the principle could be identified through quasi-judicial procedures: this assumption entails, however, in my opinion, oversimplifying most problems. As an example I might quote the criteria fixed in 1974 for establishing the "constructed value" in antidumping cases, where allowance has to be made for an eight per cent profit margin in estimating the existence of dumping: this profit level is completely arbitrary and, in fact, constitutes a very effective import barrier, especially during a recession (7). Moreover, Section 301 of the 1974 Trade Act offers relief against practices by a foreign country which are

- inconsistent with the provisions of any trade agreement including subsidies on exports, or
- : unjustifiable, unreasonable or discriminatory

If consultations or other measures fail, Section 301 authorizes unilateral US action.

US trade legislation (as developed mainly in the 1974 Trade Act, and in the 1984 Trade and Tariff Act and as the "1988 Trade Bill" would confirm if enacted) reflects the perception that the main cause for external imbalances lies in unfair practices by the US's trade partners: the US, as the new expression goes, has therefore to reestablish a "level playing field" in order to ensure that "fair trade" can resume its course.

⁶⁾ Cfr. Hart, van der Wen, Woolcock - Interdependence in the post-multilateral era, 1986.

⁷⁾ to "In the depressed steel market of the 1970s, profits were seldom as much as eight per cent of turnover. As US steel producers were not obliged to abide by the same rules, the eight per cent profit margins provides a cushion against import competition." Ibidem.

Protectionist pressure in the US Congress has expressed itself, on the one hand, by a considerable number of sector-specific bills being tabled, seeking protection for particular US economic activities. Of these, only the textile bill has managed to be adopted by both Houses: the chances of a definitive approval are however very slim); on the other hand, the "Trade and international economic policy reform bill 1987" passed by the House of Representatives, and the "Omnibus trade bill 1987" approved by the Senate, have managed to concentrate most of the energy of protectionist lobbies as well as acute criticisms both by the US Administration and by the EC institutions (8). Apart from the specific provisions contained in the Gephardt amendment to the House bill, the main points of criticism were the following:

- a) unilateral changes in the US trade law create real risks of mirror action or retaliation (cfr. re-definition of countervailable subsidies, standing of petitioners in cases involving processed agricultural products, expansion of the scope of the dumping statutes to include imput dumping, leases etc., private right of action in antidumping cases, imposition of import surcharges in view of financing adjustment),
- b) potential restrictions on foreign investments in the US,
- c) sector-by-sector recipricity requirements,
- d) creation of new non-tariff barriers,
- e) new limitations on US trade negotiating authority,
- f) new limitations on the President's discretion in trade cases.

However, the US President has repeatedly announced he would veto a protectionist trade bill (9).

3. The EC and the US approach to subsidies

Contrary to the US, most of the Member States of the EC had a long tradition of state intervention in the economy, in particular in order to assist ailing industries, to favour adjustment and to pursue regional and social objectives; this tradition was continued in the EC, and codified to a certain extent both in the Treaty of Rome and in the regulations concerning the so-called "structural policies". The steel sector, in particular, was submitted to a "subsidy code" by means of which a series of state aids were authorized, subject to certain capacity reductions. In

- 8) EP resolution, 17.9.1987. Letter by Mr. De Clercq, Commissioner responsible for external relations, to Mr. Clayton Yeutter, 28.9.1987. Council conclusions of 28.7.1987.
 White House statement, november 3, 1987 in USA Text US mission to the EC
- 9) Confirmed by the US Ambassador to the EC, Mr. Kingon, in letter to the rapporteur, 13 November 1987, following discussion in the committee on external economic relations on 5.11.1987.

short, concerning steel "The United States interpreted its trade legislation to mean that a restructuring aid was a countervailable subsidy, whereas the European Community had reached a compromise agreement that aid should be permitted provided it was linked to restructuring" (18).

The definition of what constitutes a "subsidy" is also a main point of EC/US dispute: in general "the US considered anything not determined by the going market rate as a subsidy, whereas the official European policy is to consider something a subsidy only if it appears somewhere at a cost to the public exchequer (11)". The differences of approach between the EC and the US led to differing interpretations of the 1979 GATT code on subsidies and countervailing duties: in fact the ambiguities in the GATT code had been necessary in order to reach an agreement since the fundamental divergences had remained unresolved in the negotiatons.

The difference of approach leads however to serious difficulties, as can be observed in the AIRBUS case, where the conditions under which funds are supplied by the relevant Member States are considered by the US to contain a subsidy element.

¹⁰⁾ Hart, van der Wen, Woolcock, 1986.

^{11).} Ibidee

4. The following table (based on Commission data) establishes a certain parallelism between US, EC and GATT measures as concerns international trade measures:

<u>us</u>	CATT	EC
Section 201 of the 1974 Trade Act (Escape clause)	Art. XIX	Regulation 288/82 (Title V)
Section 301 of the 1974 Trade Act (Unfair Trading Practices)	Art. XXIII (only under the Agr eem ent)	Regulation 2641/84
Section 701 of the 1930 Tariff Act (Countervailing duties)	Art. VI + XVI +) Code)	Regulation 2176/84 Decision 2177/84 Regulation 1761/87
Section 731 of the 1930 Tariff Act (Anti-dumping duties)	Art. VI + Code)	
Section 232 of the 1962 Trade Expansion Act (Safe- guarding national security)	Art. XXI	Article 223(1)(b) of Treaty
Section 22 of the 1933 Agricultural Adjustment Act		No comparable equivalent under EC law except in the case of agricultural products where a variable levy may be regarded as fulfilling a similar purpose.

Both the US 1974 Trade Act and the 1930 Tariff Act have been considerably amended, lastly by the 1984 Trade and Tariff Act.

II. AGRICULTURE

1. Agriculture constitutes the main bone of contention between the EC and the US: it is the one sector where commercial interests clash more directly and where also the prospects for future agreement, and for a common approach to outstanding problems, seem more difficult.

Basically, the US considers the CAP as a highly protectionist operation which has artificially bolstered EC exports through subsidies, while at the same time successfully closing up its internal markets for most

products with the exception of oils and fats and cereal substitutes (12), where the GATT bindings undertaken by the EC during the Dillon and Kennedy Rounds of Multilateral trade negotiations have ensured US exports unlimited access to the EC. The EC, on the other hand, considers that the US, through the 1955 waiver to several GATT articles, has managed to maintain a high degree of protection of its markets, while in parallel exports have been assisted, in particular through the recent export enhancement programme (EEP) meant specifically to displace Community exports by matching subsidies.

2. The respective level of EC and US farm subsidies has been the subject of several contrasting evaluations. Tipically, the US has always insisted on the absolute size of the subsidies, whereas the EC has stressed the ratio subsidies/work force in the farm sector.

The <u>overall economic cost</u> of farm policies can be roughly subdivided into two parts: one is borne by taxpayers (through public expenditure), the other by consumers, through high internal prices, maintained mainly through protection at the border (the so-called "consumer transfer)"; the OECD report on National Policies and Agricultural Trade (13) provides the following table concerning the cost of farm policies (public expenditure plus consumer transfer) as a 1979-88-81 average (14):

Cost (ECU billion)	ECU/ha	ECU/farm	ECU/worker	GIP(a)	GVA(b)	VFP(c)
US 26.2	61.3		7.453	1.3	42.1	22.1
EC 56.2	613.4		7.465	2.8	93.2	49.9

(a) gross internal product; (b) gross value added in the farm sector; (c) value of final agricultural production.

With regard to the structure of public expenditure the report shows that 56.8% of EC support was concentrated in price and income support (US: 18.3%) whereas the US aid was concentrated (59.6%) in processing, marketing and consumer support (EC: 10.2%).

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¹²⁾ In fact, the setting up of the CAP implied that estimated tariff levels for agricultural goods as a percentage of border prices rose from 16% (1956) to 52% (1965-1967) as an average for the original six Member States (Source: World Bank, 1986 World Development Report, page 13)

¹³⁾ OECD, Paris 1987.

¹⁴⁾ Interesting data on this subject is also contained in "The Political Economy of International Agricultural policy reform", 1986, by the Department of Primary Industry of Australia.

The cost of farm policies was financed by taxpayers and consumers in different proportions in the EC and in the US:

(1979-80-81 average)

	Taxpayers billion ECU (1)	Consumers billion ECU (2)	2/1 %	.:. ***
US	19.4	7.€	36.1	
EC	21.1	35.8	169.7	

The most striking difference between farm support policies in the US and the EC is therefore the high proportion of cost borne by the consumers in the EC, whereas the US relies more on budgetary measures in order to ensure its support.

The main problem in considering the OECD data is that important changes have taken place since 1981 in the amount of agricultural support both in the EC and in the US: only one element of the support, i.e. budgetary expenditure at US federal budget level and at the EC budget level, can be easily identified.

(USD billion)

	1982	1983	1984	1985	1986	1987 (*)
EC	12.2	14.2	14.5	14.7	22.0	26
US	11.7	18.9	7.3	18.0	25.8	25 3

(*) Estimate

Source: US department of agriculture EC Commission

Estimates by the US Department of Agriculture indicate the following evolution for Producer subsidy equivalents (15) in the years 1982-84, as compared to the period of 1979-81:

Producer subsidy equivalents, 1979-81 and 1982-84 averages

Commodity		United	States			EC			
Commodity		1979-81	1982	-84	-	1979-81	1982-84		
(- 1)						Pe	rcent		
Beef	1/	5		6		38	43		
Corn	_	10	2	5		17	8		
Dairy		45	. 4	4 -	*	54	36		
Soybeans 2/	٠	4		6,		45	32		
Sugar		20	7.	4	<u>3</u> /	-11	41		
Wheat 4/		16	3	5	_	21	15		
Weighted average 5/		13	2	2		33	31		

1/ Ratio of policy transfers to gross domestic value of production including direct payments.

2/ Soybeans and rapeseed in the EC.

3/ A negative value indicates an effective tax on production.

4/ Includes all wheat.

5/ PSEs for all commodities weighted by their value of production.

Source: USDA.

The weighted average of PSEs would indicate a higher, but decreasing level of support in the EC, and a lower, but sharply increasing level in the US for the period considered.

3. The study by the OECD secretariat provided the basis for the <u>OECD</u> <u>winisterial meeting</u> (Paris 12th-13th May 1987) which adopted a series of principles for a concerted reform of agricultural policies, including "a progressive and concerted reduction of agricultural support", recognizing that "rather than being provided through price guarantees (...) farm income support should, as appropriate, be sought through direct income support".

¹⁵⁾ Producer subsidy equivalents (PSEs) are defined as the amount which should be paid to the producers in order to compensate revenue shortfalls caused by stopping all support policies. They can be expressed in absolute terms, or by means of other parameters (e.g. in percentage of value added).

reaffirmed the commitment to the OECD agreement, stating that "the long term objective is to allow market signals to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support".

Both the Paris and the Venice declaration referred to the Punta del Este GATT declaration (20.9.1986), which stressed the need for negotiations aimed to "achieve greater liberalization of trade in agriculture", and to improve the competitive environment "by increasing discipline on the use of " all direct and indirect subsidies".

Following the start of the Uruguay Round the EC and the US have tabled their proposals regarding the objectives of the negotiations in the agricultural sector.

The US proposal

Made public on July 6, 1987, the US proposal for GATT negotiations in agriculture comprises 3 main points:

- a) complete phase out over 10 years of all agricultural subsidies which affect trade (for export subsidies, immediate freeze and then phase out over 10 years of the quantities exported),
- b) phase out of import barriers over 10 years
- c) harmonization of health and sanitary regulations.

The proposal explicitly refers to the Producer Subsidy Equivalent as calculated in the OECD Secretariat study, as a possible way of measuring agriculture protection.

The only exceptions from the ban on subsidies would be direct income or other payments decoupled from production and marketing, as well as foreign and domestic aid programs.

Moreover, credit could be claimed for measures adopted since the Punta del Este Ministerial declaration.

96 5 Tall) The EC proposal

On 7. October 1987, the Commission adopted its proposal to the Council relating to the Community's position in the agriculture negotiations of the Uruguay Round.

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The EC proposal comprises two phases:

- a) a first phase, based on existing policies, would entail a concerted reduction of support, as well as emergency measures, like price discipline and quantitative limits;
- b) a second phase would "create the conditions for a lasting reversal of the present trend towards structural disequilibria and permanent instability".

The Community proposes taking the 1984/85 marketing year as a starting base for evaluating the effort already made for curtailing production, and advocates a readjustment of external protection by the Contracting Parties, in order to achieve a reduction of distortions. Direct aid to farmers could be provided in order to offset the loss of earnings occasioned by the new arrangements. The Producer Subsidy Equivalent (PSE) is proposed as a basis for negotiation, provided, in particular, that it be adjusted so as to allow quantification of production restraints. Most important, the EC accepts the possibility of consolidating in GATT the maximum level of support, with due account being taken however, of fluctuations in world prices and currencies.

6. Main EC/US divergences

The total abolition of subsidies (apart from limited exceptions) proposed by the US is considered "unrealistic" by the EC, which would favour a reduction in support coupled with conditions for the applications of subsidies.

The "emergency measures" by the EC seem to favour an approach based on price undertakings and market-sharing, especially in the cereals sector, while the US proposal seems to move in the direction of price and market liberalization.

Another important difference is the application of subsidies for agricultural products incorporated in processed products (including export subsidies), which for the EC should be submitted to conditions, whereas the US has always considered such export subsidies to be illegal in GATT terms.

More generally, the EC is concerned about the possibility of maintaining its double pricing system (based on the import levy/export restitution mechanism). This was expressed in the Council meeting of 20/21 October 1987 which approved the negotiating mandate, specifying that the Commission should ensure that the "basic principles and mechanisms of the CAP" be preserved (16).

In particular, while both the EC and the US seem to agree in taking the PSE worked out in the OECD report (17) as a valid basis for calculating concerted efforts in reductions of support, the EC would like to incorporate

^{16) .} Council of the EC - 8725/87 (Presse 166) page 7

¹⁷⁾ OECD - National policies and agricultural Trade - Paris 1987 -

also quantitative reductions in that parameter, and to set the 1984/85 marketing year as a baseline (while the US would like to take the Punta de l'Este declaration, 20.9.86).

It is also very doubtful whether the US would accept—a major change in protection patterns (apart from a gradual phase out): this means that the EC proposals for unbinding its tariffs on oils and fats and cereal substitutes would probably meet the same resistance as its proposal for a "stabilization mechanism" in the oils and fats sector.

7. The differences in outlook between the EC and the US are accompanied by a series of <u>specific problems</u> some of which have been the cause of acute tensions in the recent past.

Apart from the problems considered in my interim report and which have been solved, at least on an ad hoc basis (pasta, citrus fruits, enlargement to Spain and Portugal), new divergences have developed which cause serious concerns for the future.

In particular, the EC directive banning the use of hormones, as from 1 January 1988, and the EC third country meat directive (18) have been accused by the US of containing protectionist measures, and could lead to serious disputes in the near future.

With regard to the EC <u>hormones</u> <u>ban</u>, the US estimates at around 100 million dollars the sales opportunities which would be lost for their meat exporters; the Administration has therefore selected a list of products upon which sanctions could be imposed: the tariff increases are however suspended since the EC will allow, for a transitional period ending on 31 December 1988, the import of meat from hormone-treated animals.

Contacts between both sides may lead to the constitution of one or two technical expert groups or panels within GATT, in order to investigate the points at issue.

With regard to the third country meat directive, the US has requested the constitution of a GATT panel, and the EC has accepted this approach.

The US has also started investigation under section 301, on the Community's <u>oilseed</u> programs, following a petition by the American Soybean Association, whereas consultations in GATT have been asked by the US concerning the EC long-grain <u>rice</u> programs.

8. Perspectives

In fact, the main differences in interpretation of GATT principles between the EC and the US have not been solved: the agreements found, as an example, on the enlargement dispute, as well as in the Hediterranean/citrus fruit case, do not prejudge on either side the interpretation of GATT Article XXIV concerning the setting up of customs unions and free trade

¹⁸⁾ cf. Doc PE 115.480

areas, while the pragmatic agreement on EC pasta exports does not prejudge the divergence concerning export subsidies for processed agricultural products.

It is clear that only a <u>reinforced international discipline on these subjects</u>, combined with a more rapid and binding system for <u>dispute settlement</u> within GATT, could prevent those divergences causing renewed disputes and tensions in EC/US trade relations.

On the more general aspects of the <u>Uruguay Round</u>, it is clear that the possibilities of finding an agreement depend from the acceptance, both by the EC and the US, of bringing trade in agricultural products more in line with the general provisions of GATT: to this effect, the US 1955 waiver (which enables the US to continue its use of import quotas and fees to the extent necessary to prevent interference with its domestic agricultural support programmes, notwithstanding GATT articles II and IX), and the US export subvention systems should be renegotiated, whereas the EC should undertake that its system of double pricing work effectively as a means for offsetting fluctuations in production and prices, and not as its main instrument for supporting the farm sector.

In this sector the Community, although perhaps with considerable slowness, is tackling its major problems, as shown by the decisions taken by the European Council at its Brussels 11-12 February meeting on the future financing of the Community and on implementation of agricultural stabilizers. The Annexes to the European Council conclusions explicitly state the need that the Community's efforts be taken into account in the Uruguay Round negotiations, and that the other main producers take adequate measures in order to reduce output.

Action in the US, not withstanding the reductions in farm prices enacted on 22 December 1987 (19), has not yet been undertaken on the same scale.

It is therefore important that developments at internal level do not jeopardize the possibility for reaching a solid agreement in GATT, which might put EC/US relations in agriculture on a sounder basis.

III. INDUSTRY

The US and the EC have used to a large extent their antidumping/subsidies provisions in order to protect their internal markets and, in many cases, supplier countries have preferred to undertake so-called "voluntary restraint" or "orderly marketing" agreements in order to avoid antidumping or subsidies countervailing duties being imposed on their exports.

¹⁹⁾ The legislation to cut the US budget deficit signed by President Reagan reduces target prices by 1.5 percent in 1988 and in 1989, and basic loan rates by 3 percent in 1988 and 7 percent in 1989. The cumulative effect is estimated at 2.5 billion USD over two years.

This is in particular the case of the steel, textiles, automobiles and consumer electronics sectors. . .

The OECD study on costs and benefits of protection (20) contains an interesting analysis of the effects of protection in those sectors, particular with regard to its effects on employment:

"Protection may, at a cost in overall living standards, be able to preserve a pre-existing level and pattern of employment, but only in special circumstances. Normally, exchange rates and cost movements will cancel out or even reverse the initial sectoral effects of protection. Negotiated voluntary export restraints to protect oligopolistic domestic industries appear to have the least favourable prospects for adding to economy-wide employment" (21).

In particular, "the accumulated rents from protection may encourage an increase in the industry's capital stock (...) permitting higher levels of labour productivity" and a "capital deepening process" thus, "many of the jobs" saved "by long-term protection do not go to those who face the greatest adjustment burden. Rather, they go to better trained workers living in regions which are in any case experiencing above-average rates of growth".

However, if a single sector can benefit from protection, usually the overall effects are negative: in fact, exporting industries are likely to be penalised by higher import prices, and "by the tendency for the exchange rate to appreciate as protection reduces demands for imports". "Any jobs created or saved in the protected sector will endanger employment elsewhere in the economy" (22).

The OECD study is highly critical of the US's and the EC's policies in the sectors quoted: concerning steel, for example, it considers that "there is a trend of US and EEC steel trade restraint negotiations feeding on one another".

"Market shares among third country producers are being frozen by the US and the EC alike. Since voluntary restraint usually confers rents upon foreign producers as compensation for lower export volumes, foreign suppliers who do well under the existing system have an interest in seeing administered trade perpetuated and extended to any new competitors".

The cost, however, is paid in terms of slower overall economic development, as well as weakening of the multilateral GATT system, since restrictions are increasingly applied in a bilateral framework.

²⁸⁾ OECD - Costs and Benefits of Protection (intemby the Secretariat)
Paris, 1985 CPE/PEU (84) 1.

Ibidem, page 28.

lbidem, page 38.

- 4. With regard to US/EC relations, the US limits the import of most <u>steel</u> products from the EC until September 1989, at a level corresponding to 5.5% of the US market (23). In particular following to the low level of the dollar, the pressure on the US market is however rapidly receding.
- 5. The so-called "AIRBUS" case has attracted great interest from the media, since enormous financial interests and technological developments are at stake, as well as prestige considerations and symbolic issues. The EP has expressed its views in the van HEMELDONCK report (24), adopted on 15 October 1987, where it stressed the need to keep in the EC "a strong and indipendent aeronautical industry", and called "upon the sponsoring governments to provide the necessary financial support for the launching and the carrying to fruition of the A-330 and A-340 projects".

State support for AIRBUS is difficult to evaluate: the US maintains that a sum of the order of 7 to 15 billion USD is involved for the A-320. For the launching of A-330/A-340 the amount of 2.5-3 billion USD is most commonly quoted, in the form of refundable advances from four Member States to the companies which are part of AIRBUS (25).

The US maintains that this financial support, although formally granted in the form of refundable advances, does not stand a reasonable chance of ever being repaid, and amounts therefore to outright grants. There is therefore the possibility of US action (section 301 or section 701), based on petitions by US aircraft producers.

The issue at stake with the US is the interpretation of articles 4 and 6 of the agreement on trade in civil aircraft, in connection with the GATT Agreement on subsidies and countervailing Measures.

Article 4 puts conditions on "government-directed procurement, mandatory subcontracts and inducements"; article 6, while specifying that the GATT "subsidies code" applies to civil aircraft, states that the signatories to the code on trade in civil aircraft "in their participation in, or support of, civil aircraft programmes (...) shall seek to avoid adverse effects on trade in civil aircraft (...) they also shall take into account the special factors which apply in the aircraft sector, in particular the widespread governmental support in this area, their international economic interests, and the desire of producers of all signatories to participate in the expansion of the world civil aircraft market"; furthermore, "Signatories agree that pricing of civil aircraft should be based on a reasonable expectation of recoupment of all costs" including, in particular, "identifiable and pro-rated costs of military research and development on aircraft, components, and systems that are subsequently applied to the production of such civil aircraft".

²³⁾ On the development of EC/US disputes in the steel sector, I would like to refer to my interim report, doc. A2-

²⁴⁾ doc. A2-125/87.

²⁵⁾ On the financing of Airbus, vid. "Up on a wing and a prayer for cash", Financial Times, 26.3.1987.

I have quoted to a certain length from the GATT code in order to show that, from a legal point of view, it seems that GATT rules are not very binding, in particular considering the widespread subsidization of the sector, and consist mainly of statements of intentions.

The negotiations going on with the US are centered therefore on "interpretation" and possible "revision" of these two articles; it seems that, while an agreement on article 4 (government procurements) might be at hand, article 6 (subsidies) still poses major problems, with the US trying to fix stricter controls on direct subsidization and the EC trying to limit in particular indirect subsidies (spin-off effects from military R & D and military purchases).

with regard to the present situation, the US allegations about subsidies by the governments of four Member States are very difficult to substantiate, in particular because Airbus Industrie is an economic grouping and not a company, therefore it does not file financial results: the amounts quoted by American sources vary in fact by a considerable factor. Talks are going on at present "to consider the organisation of Airbus and to advise if the current structure and organization is the most appropriate" (26).

The situation with regard to subsidies on the opposite side of the Atlantic is. I might say, even less transparent, considering the difficulty, as an example, of calculating "pro rated costs of military R & D " subsequently employed for civil aircrafts.

From a more general point of view, I would stress some further elements:

1 to 1

- a) the commercial aircraft market shares in the last years have shown Boeing reinforcing its dominant position (1984: 54%; 1985: 61%; 1986: 64%) (27), which amounts to a practical monopoly for long-range carriers;
- b) the interconnection between aircraft component industries in the US and in the EC is such, that any measure effectively limiting sales, such as tariff barriers, would cause serious economic consequences on both sides of the Atlantic.

It is therefore to hope that a negotiated solution might be found for the future of trade in civil aircraft: I believe that the Europeans do not

²⁶⁾ UK department of Trade and Industry, quoted in the Financial Times "Airbus partners may restructure to defuse row with the US" 25.1.1988.

²⁷⁾ Percentage of seats in commercial aircraft delivered.
Source: Mc Donnell Douglas 1986 Annual Report:
See also: Majumdar, "Upstart or Flying Start", in "The World Economy", n. 1, 1988;

need to present a somewhat stricter control on subsidies (both direct and indirect) (28).

A specific point needs however to be mentioned: erratic movements on exchange markets, and in particular of the value of the dollar (currency in which most aircraft sales are expressed) induce considerable uncertainties on possible profits and on soundness of investments; the use of the ECU in contracts for aircraft sales should be adequately promoted, as the only system, at the moment, for ensuring a certain stability of outlooks.

IV. FINANCIAL ASPECTS

1. (USD billion)

1981 1982 1983 1984 1985 1986 1987 (*)
US trade balance -27.9 -36.4 -62.0 -112.5 -124.4 -144.3----155.7 (fob/cif)

US current balance 4.5 -11.2 -40.8 -106.5 -117.7 -141.3 -156

(*) Forecast Source: OECD

OECD projections, assuming unchanged exchange rates in 1988 and 1989, would indicate however an improvement of the US current balance, to -134.2 billion USD in 1988, and -105.2 billion in 1989.

The US 1987 deficit on current accounts (156 billion USD) has to be appreciated in comparison with surpluses of the order of 85 billion USD in Japan, 45 billion USD in the Federal Republic of Germany, and around 30 billion USD in the 4 Asian NICs (Korea, Taiwan, Singapore, Hong-Kong). The effect is a strong inflow of foreign capital in the US, increasing its external debt, which will cause considerable capital outflows for interest and principal repayments in future years.

2. The sharp adjustment in the exchange rate of the dollar, following its peak in February 1985, is reflected in a diverging development of

US exports and imports. in volume terms:

(percentage	
1986 1987 (*) Forecasts: 1988 19	200
	797
不足に対する 情報のでは、というでは、1964年には、1964年には、1964年には、1964年には、1964年によっては、1964年によっには、1964年によっては、1964年によっには、1964年によっては、1964年によっには、1964年によっには、1964年によっには、1	$\overline{}$
US exports + 5.9 +14 1/2 +17 3/4 +	11 1/4
	1 1/4

(*) Estimate

Source: OECD

^{28):} Vid. Jean Pierson; administrator of the Airbus grouping: 'the A330-340 will be profitable since the return on investment for this aircraft is 15.6%' ('Le Honde' 13.1.1986).

These data underline the fact that a dramatic reversal in US competitivity has already taken place, in particular in the manufacturing sector, and that further declines in the dollar exchange rate might have negative effects on US inflation and interest rates which outweigh any possible positive effects on the trade balance (29).

3. The case for a stabilization of exchange rates, following the violent oscillations of the last years and the instability on the stock markets, is in my opinion stronger than ever.

In this context, the reduction of the <u>US budget deficit</u> is considered one of the most important elements, along with the strenghtening of internal demand in the countries running an external surplus on current accounts.

The agreement on the FY 1988 budget between the President and the US Congress, on 38 November 1987, is therefore a step in the right direction, although further deficit reductions need to be implemented in the next years

The US budget deficit, in percentage of GNP, has shown the following evolution in the last years:

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Charles Andrews Again

as a comparison, we can consider the following data in other OECD countries:

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		77/8			1.		198	1	1985		<u> 1986</u>	19	<u> 17</u>
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¥,	Page 1			13.5	4, 3	4.00		Part Land	** X j	717		W	

Source: OECD Economic outlook, December 1987.

The fact that the US budget deficit, compared to GNP, is not out of line with that of some of its trading partners, should not lead to underestimate the specific problems caused by the central role of the dollar as the main reserve currency, and the symbolic value which is now attached to ithis parameter in public opinion.

Both the OECD ministerial meeting communique (Paris, 13 May 1987) and the Venice seconomic declaration (18 June 1987) stress the need to solve external imbalances, recognizing that further substantial shifts in exchange rates could prove counterproductive to efforts to increase growth and

^{29) 3}Vid. Paul Volcker, Les dangers d'une baisse du dollar, in "Le Monde"

facilitate adjustment; protectionist pressures are viewed with grave representations. concern" (30). The multilateral system based on the principles and rules of the GATT should be improved, bearing in mind that "protectionist actions would be counterproductive, would increase the risk of further exchange rate instability and would exacerbate the problems of development and indebtedness".

OVERALL ASSESSMENT

Car Carlo

- 1. Following the events on the stock markets in the last months of 1987, public opinion, both in the US and in the EC, has grown more aware of the risks of a serious economic downturn in the next years: in this context, the parallel with the experience of the thirties, when generalized protectionism was instrumental in spreading and deepening the Great Depression, has operated some change in the atmosphere, in particular in the US, where the effects of competitivity gains and export improvement in the manufacturing sector also help to moderate protectionist sentiments.
- 2. In this context, I would like to repeat, and strenghten, conclusions of my 1985 report on protectionism:

protectionism, as a general rule, does not provide any lasting economic advantage to the State resorting to it: it simply amounts to redistributing revenue from certain general categories (i.e. consumers, both intermediate and final) to certain specific categories (workers and shareholders of the protected industries). State subventions operate much the same way, by transferring funds from taxpayers to specific categories of workers and shareholders.

If some scope for limited protection might be found in counteracting abrupt phenomena like import "surges" or the like, experience shows that protective measures tend to perpetuate themselves, and the political debate rarely succeeds in making clear to the public the economic costs of such measures and the way that revenue distribution will be affected by them.

World trade has been affected, overall, by the weakening of the GATT system, characterized i.a. by the proliferation of non-tariff trade barriers, and in particular of "orderly marketing agreements" and "voluntary restraints".

With regard to EC/US trade. the system of international market-sharing, which has prevailed in sectors like steel, has in the past created serious problems for EC exports to the US: any further extension of this approach, to sectors like agricultural markets (e.g. cereal markets) would mean mont only ofurther economic acosts, but preparing the ground for renewed international disputes. ight out to a second of the se

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West and 36) Venice economic declaration, paragraph 13.

In the highly delicate sector of <u>agriculture</u>, it is clear that only a system of <u>realistic pricing</u>, with support given mainly through non-output related direct aids, would reduce economic distortions and the high degree of protection which most of the industrialized economies, including the US and the EC, have maintained until now.

350 W . S ...

This approximation to economic reality would reduce at the same time the scope for recurrent trade conflicts which could easily spread to a substantial part of EC/US trade relations.

The strengthening of the GATT system, centered on multilateral free trade, on the basis of the MFN clause, appears as the only effective way to solve the US/EC trade disputes; the Uruguay negotiation round should aim therefore, in particular, to the following results:

- 1) tightening and clarification of the subsidies code (both for domestic and export subsidies);
- 2) tightening of GATT discipline for agricultural sector: _rediscussion of the US waiver and export policies and of the external consequences of the CAP, leading to consolidation and reduction of producer subsidy equivalents;
- 3) improvements to the dispute settlements procedures in GATT.
- 4. The US and the EC have suffered badly from changes in international patterns of productivity and trade: newly industrialized nations have considerably improved their performances in the last years, and whole sectors of traditional industries have undergone a deep crisis both in the US and in the EC.

Protectionism, in these conditions, appears simply as a rear-guard battle, delaying, at enormous costs for both parties, needed structural changes.

MOTION: FOR A RESOLUTION (DOCUMENT 2-809/84)

tabled by Mr DE GUCHT

pursuant to Rule 47 of the Rules of Procedure

Jon the protectionist attitude of the American Congress

The European Parliament,

- A. having regard to the adoption by the American Senate and Congress of the *Omnibus Act; a new commercial law containing explicitly protectionist measures.
- B. whereas this act contains enough elements in various spheres to unleash a world trade war within a very short time,
- C. whereas although a number of anomalies have been removed, the above is still true following the consultation procedure between Congress and Senate,
- 1. Supports the statement by the Commission and Council protesting against the Omnibus Act;
- 2. Urges President Reagan to use his right of veto against this Omnibus Act in order not to further damage world trade in general and USA-EEC trade relations, which could only have detrimental effects for both partners.

MOTION FOR A RESOLUTION (DOCUMENT'S 2-872/84)

tabled by Mr FRUH, Mr VON WOGAU, Mr DALSASS, Mr MIZZAU, Mr I. FRIEDRICH

on behalf of the Group of the European People's Party

pursuant to Rule 47 of the Rules of Procedure

on the Wine Equity Bill before the US Congress

The European Parliament,

THE PARTY NAMED IN

51.4

- A. concerned that the US Congress has passed a bill which could make wine imports from the European Community into the USA more difficult,
 - B. concerned that the International Trade Commission (ITC) is to be allowed to introduce corresponding protectionist measures at the request of American wine producers,
 - 1. Instructs its delegation for relations with the United States to insist at the forthcoming meeting with the US Congress that the principle of reciprocity in trade be upheld;
 - 2. Calls on the Commission and the Council to take the necessary steps to counteract these risks of protectionism;
 - 3. Instructs its President to forward this resolution to the Commission and Council of the European Communities.

MOTION FOR A RESOLUTION (DOCUMENT 2-895/84)

tabled by Mr MAFFRE-BAUGE, Mrs DE MARCH, Mr PRANCHERE, Mr WURTZ and Mr PIQUET pursuant to Rule 47 of the Rules of Procedure

on the threat to agricultural exports to the USA

- whereas the United States Congress has adopted draft legislation on external The European Parliament, whereas the united states congress has adopted didit tegristation on externation that the united state Bill) enabling the USA to take measures to restrict trade (the Omnibus Trade Bill) enabling the USA to take measures to restrict
- whereas the adoption of such legislation would be severely prejudicial to Whereas the adoption of sach tegristation would seriously affect relations between Community agricultural exports and would seriously affect relations В. the Community and the USA,
- whereas the favourable position of the Community's agricultural exports to the USA was due solely to the high rate of the dollar and whereas the USA's balance of trade with the EEC in the agricultural sector remains substanti-.c. ally in its favour (4,800 million ECU in 1983),
 - Deplores the protectionist provisions of the American Bill, which are contrary to GATT regulations; 1.
 - Notes that the goodwill and concessions extended by the Community are notes that the good and only serve to encourage the USA in the pursuit of its protectionist policy and its trade offensive on the world market; 2.
 - 3. Calls on the Commission and the Council vigorously to urge the USA to respect its obligations and to draw up counter-measures (e.g. on imports of soya and American maize glutenfeed), to take immediate effect upon the
 - Calls for this problem to be referred to the EEC/USA interparliamentary enactment of this law;
 - Instructs its President to forward this resolution to the Commission, the delegation; Council and the Government of the United States.

MOTION FOR A RESOLUTION (DOCUMENT 2-1020/84)

tabled by Mr MOORHOUSE

pursuant to Rule 47 of the Rules of Procedure

on the dangers of protectionism in US-EEC trade relations

The European Parliament

MENT NO.

- A. Panxious to improve general trade relations between the European Community and the United States of America,
- B. committed to the maintainance and extension of a free and open world trading system, based on the principles and obligations laid down in the GATT,
- tendencies which, if unchecked, could easily generate protectionist responses on either side,
- D. determined to avoid any such towards protectionism, believing that its effect could only be to limit consumer choice, increase domestic prices, inhibit competition and generally make less efficient the allocation of resources in the two economies, so worsening the recession and forestalling recovery.
- E. Concerned also that any drift towards protectionism in the US-EEC trade sphere

 No. would gradually corrode mutual trust and confidence on a more general political

 plane; with attendant dangers for the strength of Western security as a whole,
- Is Requests its relevant Committee to draw up a general report on the current state of US-EEC trade relations, building on the basis of the Rieger Report on the same subject passed by the previous Parliament;
- Zing Considers that this new report should focus inter alia on the origins and consequences of trade disputes in steel, agriculture, high technology goods, and other areas of recent concern.
- 3. Considers that the report should pay particular attention to recent protectionist latereds in the US Congress, so far largely/resisted by the US Administration, and a resisted by the possible effect of any successful Congressional Legislation on US international obligations,
- 4 Gelieves that the report should offer positive solutions to encourage trade

 4 fiberal sation on both sides and should not shirk from identifying illiberal

 5 trade practices on the part of the Community wherever such practices occur.

MOTION FOR A RESOLUTION (DOCUMENT 2-1469/84)

tabled by Mr PIQUET, Mr PRANCHERE, Mr WURTZ, Mr MAFFRE-BAUGE, Mr HOFFMANN and Mr GRENETZ

pursuant to Rule 47 of the Rules of Procedure

on the threats made by the United States with regard to the agricultural market

The European Parliament,

- A. whereas the GATT agreements have guaranteed the foundations and principles of the CAP,
- B. having regard to the difficulties at present on the world market, in particular for dairy products,
- C. whereas unfair competition on the world market penalizes the Community's farmers in particular,
- D. desirous of good trade relations with the Community's main trading partners,
- E. having regard to the size of the Community's agricultural trade deficit with the United States,
- 1. Protests at the United States decision to withdraw from the international agreements on dairy products;
- 2. Is disturbed by American pressures even going as far as a threat of withdrawal to obtain renegotiation of the GATT agreements with the aim of calling into question the foundations of the CAP;
- 3. Is concerned by the preparation of a new American Farm Bill which will mean reduced support for agricultural production to be compensated for by increased export aids;
- 4. Calls on the Commission and the Council to demonstrate greater resolution in the face of American pressure on the agricultural markets, if necessary by the implementation of retaliatory measures;
- Reaffirms the Community's role as an exporter which should find expression in a strengthening of the common trade policy, in particular with the establishment of long-term contracts;
- 6. (Instructs its President to forward this resolution to the Commission

MOTION FOR A RESOLUTION (DOCUMENT 2-1689/84)

tabled by Mr MUSSO, Mr PASTY and Mr FLANAGAN

on behalf of the Group of the European Democratic Alliance
pursuant to Rule 47 of the Rules of Procedure

on the US Farm Bill

The European Parliament,

- A. having regard to the threat to the CAP posed by the Farm Bill which the American Congress is preparing to adopt,
- B. having regard more particularly to the fact that one of the aims of this bill will be to discontinue farm income subsidies in the United States,
- C. whereas this measure will lead to a substantial fall in American ceneal prices and consequently also to a substantial fall in world prices,
- D. whereas the 'budgetary discipline' introduced by the Council will preclude higher export refunds being given in respect of cereals,
- 1. Calls on the Commisssion to propose, as a matter of urgency, measures to prevent the EEC being squeezed out of the world market;
- 22. Calls on the Council to take as a matter of urgency effective measures to be proposed by the Commission;
- 3. Instructs its President to forward this resolution to the Commission and the Council of Ministers.

MOTION FOR A RESOLUTION (DOCUMENT B 2-0013/85)

tabled by Mr PAPOUTSIS pursuant to Rule 47 of the Rules of Procedure on the formulation of a Community policy in response to protectionist measures by the USA

The European Parliament,

The state of the s

- A. having regard to its resolutions of 12 April 1984 (Doc. 1-1540/83) and the second of 12 April 1984 (Doc. 1-37/84) on FEC-US political and trade relations,
- B. having regard to the protectionist measures which the USA continues to adopt and apply against European products,
- C. whereas the protectionist policy of the USA, which is chiefly due, no the one hand, to the rise in the price of the dollar and, on the other, to the increase in the USA's trade deficit with the Community, is tending to extend across almost the entire spectrum of trade relations between the Community and the USA,
- D. having regard to the latest statements by the President of the Commission, Mr J. DELORS, to the Economic and Social Committee on 2 March 1985 and to the pression 4 March 1985, to the effect that there was a conflict between the EEC and the USA on all trade questions and that there was an acknowledged need for the Community to pull together so as to face the problems collectively and decisively,
- Explaying regard to the wider economic consequences for the Community of the application of profectionist policy measures by the USA, particularly the correning of the unemployment problem with all its social concomitants.
- Calls on the Commission to formulate a global political strategy against the continuous and protracted protectionist policy pursued by the USA:
- Aiks the commission to make a detailed study of all US protectionist will ensure the such protection to property an overall response to such protections and submitting a report to Parliament on the measures within the first six months of 1985;
- 3 YBelieves that all necessary steps must be taken to deal immediately mus
 - Considers that, in conjunction with the formulation of an overall policy for confronting American protectionism, the Commission must work out a framework for negotiations with the USA with a view to securing a package trade agreement which has the concerted support of all the Members States;
- This ructs its President ito forward this resolution to the Commission, the Council and the Governments of the Member States.

MOTION FOR A RESOLUTION (DOCUMENT B 2-580/85)

tabled by Mrs LIZIN

pursuant to Rule 47 of the Rules of Procedure

on the situation in the European tube industry

The European Part 142011,

- A. aware of the difficulties caused by the American attitude to exports of European tubes to the US market,
- B. whereas it is vitally important, particularly for new producers, that the market is reopened at an early date,
 - 1. Calls on the Commission to conduct uncompromizing negotiations which will lead to the market being reopened, whilst rejecting the current demarcation;
- 2. Hopes that the Commission will submit to Parlizment a report on the impact of American measures on the various types of products manufactured by the European tube industry as a whole.

MOTION FOR A RESOLUTION (DOCUMENT B 2-663/85)

tabled by Mr STARITA

pursuant to Rule 47 of the Rules of Procedure

on the situation of the footwear sector following the imposition of import quotas by the USA

The European Parliament,

- A. alarmed by the recent measures announced by the USA to reduce imports of footwear drastically and abruptly, a move which of all the countries of the EEC would particularly affect Italy which, in 1984, exported more than 63 million pairs of shoes to the USA, equivalent to 5% of the overall consumption of that country,
- B. whereas, coming closely on the heels of the restrictions on pasta, this measure represents yet another policy decision in the trade war being waged by the United States against the EEC and Italy in particular,
- C. considering that the measures announced, consisting of the imposition of an import quota on the basis of type and price, actually favour imports of shoes produced in countries such as Taiwan, South Korea and Brazil at the expense of Italy and other countries of the EEC which manufacture shoes in the medium-high quality and price range,
- D. concerned about the economic repercussions both on the industry and on the small and medium-sized undertakings in the footwear sector, as well as the effects on employment,
- E: having regard to the role played by the small and medium-sized craft industries producing hand-made shoes, notably those run on a family basis, in the economy of certain particularly vulnerable regions which clack direct alternatives for production, jobs and merchandise,
- 1. Calls on the Commission of the European Communities to take all possible steps to ensure the withdrawal of the measures announced;
- 2. Urges the Council to display greater vigilance and firmness in defending Community interests vis-à-vis the USA;
- 3. Instructs its President to forward this resolution to the Commission and the Council.

MOTION FOR A RESOLUTION (DOCUMENT B2-1220/85)

tabled by Mr MATTINA and Mr CERVETTI

pursuant to Rule 47 of the Rules of Procedure

on the increase in the duties imposed on European pasta products by the USA

The European Parliament,

- having regard to its resolution of 11 July 1985 on EEC-United States trade in agriculture,
- A. whereas the trade dispute between the EEC and the USA has worsened as a result of America's decision to increase the duties on pasta products imported from Europe by about 1% to 40% for pasta without egg and 25% for pasta with egg.
- B. whereas this decision has been taken at the very moment when the Community and the United States were reaching an understanding on a new bilateral agreement committing the EEC to restrict its exports of a wide range of steel products until 1989,
- C. rejecting the justification put forward by the USA concerning the alleged damage caused to American agriculture by the Community trade preference accorded to the poor countries of the Mediterranean region,
- Direcalling that the preferential agreements concluded with these countries are aimed at promoting development cooperation and strengthening social and political stability in the Mediterranean, and not at securing economic advantage for the countries of the EEC.
- Eastrecalling also the 'gentlemen's agreement' (Casey-Soames agreement) of 1974 under which the United States recognized the importance and legitimacy of these agreements,
- F. whereas no further moves towards mutual retaliation should be made, as
- 1. Strongly condemns the increase in duties imposed on European pasta products by the USA following the expiry of a period of truce during which the Community has sought to reach an agreement by all possible means, including the introduction of a 48% cut in export refunds for pasta products;
- Approves the Commission's decision to increase from 8% to 30% the customs duties applicable to American valuuts and from 8% to 20% those applicable to lemons;
- 3. Confirms its desire to accord privileged treatment to the Mediterranean countries; which do not have sufficient resources to adapt their production to market requirements;
- 4. Calls on the United States Government to review its decision to increase the duties on pasta so as to prevent a further deterioration of the deterior of the deterio
- 5. Calls on the Commission, pending the opening of a new GATT round dealing with the problems of international trade as a whole, to step up its negotiations with the United States so as to prevent a recurrence of the unitates of this kinds with the United States of the United State

(Rule 120 of the Rules of Procedure) of the Political Affairs Committee

Draftsman: Mr. Haensch

At its meeting of 27 January 1988 the Political Affairs Committee appointed

At its meeting of 23-24 March 1988 the committee considered the draft

opinion. It adopted its conclusions unanimously on 24 March 1988.

The following took part in the vote: Mr Santana Lopes (acting chairman); Mr. Haensch, draftsman; Mr. Christiansen (deputizing for Mr. Ford), Mr. Fitzgerald (deputizing for Mr. Flanagan), Mr. Gama (deputizing for Mr Ercini), Mr Habsburg, Mr Newens, Mr Penders, Mr Perez Royo, Mr Pflimlin, Mr Poettering and Mr Welsh.

Affairs Committee on political relations between the European Community and other United States of America (Coc. A 2-105/87), Parliament expressed its concern at the fact that protectionism is obviously gaining ground in US political thinking. It emphasized the importance of resolving trade disputes between the United States and the EC in a spirit of goodwill, thereby making sure that the ities that bind the western alliance remain unbroken.

These observations still hold true. International developments over the past few months have given them added topicality and urgency.

2. All trading powers, including the Community, are tempted to introduce unilateral protectionist measures to shield individual industries that are in trouble. Certainly, this tendency has grown at an alarming rate in the United States. In December 1987 the Commission again published a list of current US protectionist trade barriers. It demonstrates the increasingly sophisticated methods of market foreclosure that are being used, some of which, such as re-export controls and unilateral counter-measures pursuant to section 301 of the Trade and Tariff Act 1974, are exclusively practised in the United States.

The future course adopted by the US will be determined more than anything by the new trade legislation. The proceedings of the joint conference of members of both Houses of Congress on the Trade Bill 1988 have not yet been completed. The outcome will decide whether the world's richest nation and the Community's most important trading partner will continue to take refuge in protectionism or whether it will allow the development of the free world trade system to go ahead. The report by the Committee on External Trade Relations comes at the right time to remind our American partner once again of the heavy responsibility it would bear if it opted for the wrong path.

- 3. The Political Affairs Committee requests the Committee on External Economic Relations to include the following points in its report.
- 3.1 Parliament welcomes the recent encouraging trend in the US balance of trade, with a significant drop in its deficit being recorded in November 1987 for the first time over a long period, amounting to roughly \$ 4 billion. Underlying this is both a surge in US exports, including those to the Community, and the recapturing of parts of the US domestic market. Parliament is naturally aware of the problems this will entail for European companies; but it considers this development a welcome sign of the innovative forces at work in the US economy, and calls on the US to take the opportunity to distance itself from any further escalation in the enforcement of its trade policy.
- 3.2 Parliament points out that market foreclosure does not tackle the causes of economic adjustment problems but aggravates them. Major American voices are also stressing that it is not protectionist measures that will lead to the modernization of specific industries, but domestic political efforts. What is required is the will to take up the challenges posed by international competition and ensure better overall conditions, such as stable exchange rates and more effective action to cut the budget deficit. Parliament particularly wishes to call attention to the fact that many of the discriminatory measures adopted by the United States to protect its intellectual property and prevent the transfer of technology even within the West have had the effect of speeding up the search for alternative solutions and independent technological developments in Europe, thereby strengthening European competitiveness.

3.3 Parliament considers the success of the Uruguay Round of great political importance. The developing countries must be guaranteed continued access to the markets of the industrialized nations. The GATT talks are making encouraging progress. A tightening-up of US trade legislation would place the injectory and aggravate the Third World's debt problem in an irresponsible way. The United States must be reminded of its responsibility for leading the movement towards a strengthened and expanded multilateral world trade system.

REPORTS

Annex

to the report drawn up by Dame Shelagh Roberts on behalf of the Committee on External Economic Relations

Opinion of the Committee on Agriculture, Fisheries and Food

7.6.1988

Catalogue number: AY-CO-88-120-EN-C

IISBN 592-77-37314-8

EUROPEAN COMMUNITIES

EUROPEAN PARLIAMENT



European Parliament

PE DOC A 2-89/88/Annex

to the report drawn up by Dame Shelagh Roberts on behalf Committee on External Economic Relations

Opinion of the Committee on Agriculture, Fisheries and Food

7.6.1988

Office for Official Publications of the European Communities L - 2985 Luxembourg

Series: REPORTS

1988 - 9 pp. - Format: 21.0 × 29.7 cm

ISSN 0256-2375

ISBN 92-77-37314-8

Catalogue number: AY-CO-88-120-EN-C

Note to readers : For the text of the text of the text of the text of proceedings of the sittings of the European Parliament or the collection of Texts adopted by the European Parliament; distributed at the end of the part-session, by the European Parliament or the Office for Official Publications of the European Communities



European Communities

EUROPEAN PARLIAMENT

SESSION DOCUMENTS

English Edition

1988-89

7 June 1988

SERIES A

DOCUMENT A 2-89/88/ANNEX

ANNEX

to the report drawn up by Dame Shelagh Roberts
on behalf of the Committee on External Economic Relations

OPINION of the Committee on Agriculture, Fisheries and Food

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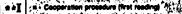
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Cooperation procedure (second reading) which requires the votes of the majority of the Member of Parkement





Parliamentary assent which requires the votes of the majority of the current Members of Parlia

OPINION

(Rule 120 of the Rules of Procedure)

of the Committee on Agriculture, Fisheries and Food

Draftsman: Mr EYRAUD

At its meeting of 27 to 29 January 1988 the Committee on Agriculture, Fisheries and Food appointed Mr Eyraud draftsman of its opinion.

It considered the draft opinion at its meetings of 26 and 27 May 1988 and 2 and 3 June 1988 and adopted the conclusions unapposed with 1 abstention.

The following took part in the vote: Mr Colino Salamanca, Chairman; Mr Früh, Vice-Chairman; Mr Woltjer, acting rapporteur; Mr Buchou, Mr Carvalho Cardoso, Mr Cervera Cardona, Mr Dalsass, Mr Debatisse, Mr Gatti, Mr Howell, Mr McCartin (deputizing for Mr Stavrou), Mr Marck, Mr Mouchel, Mr Romeos, Mr T. Rossi, Mrs Rothe, Mr Sierra Bardaji, Mr Späth, Mr Tolman and Mr Wettig.

INTRODUCTION

- 1. The opinion I am drawing up on behalf of the Committee on Agriculture, Fisheries and Food is a continuation of the work begun in 1985 (PE 100.047) which culminated in an interim report by Dame Shelagh Roberts on behalf of the Committee on External Economic Relations (Doc. A 2-149/85, adopted by the European Parliament on 13 December 1985, OJ No. C 352, p. 280, 31.12.1985).
- I have obviously not given all these references for historical reasons but because these documents are still partly valid, and I think it is worthwhile referring to them.

Preliminary remarks

- 3. The first remark concerns the importance of agriculture in the⊸report on protectionism in EEC/USA trade relations. In her working document (PE 118.134) Dame Shelagh Roberts, rapporteur for the REX Committee, acknowledges that 'agriculture constitutes the main bone of contention' in trade relations between the EEC and the USA. This is an aspect that must not be overlooked in the debate on this report.
- 4. It should however be borne in mind that agriculture is merely one of the subjects to be dealt with in the more general GATT negotiations now under way.
- 5. The second aspect is the strong protectionist trend that has emerged in the United States in the last two years and that has taken the form for instance of laws and bills such as the 1987 Trade and International Economic Policy Reform Bill and the Omnibus Trade Bill, the Agricultural Enhancement Export Programme and the 1988 Trade Bill.
- 6. In addition, it seems clear that the internal American political climate is very worrying from the point of view of future trade relations between the United States and the Community.

USA/EEC agricultural trade

7. World agricultural trade has proved to be the main area for trade confrontation between the United States and the Community. The figures for the 80s show that the value of Community exports has remained constant or even slightly lower than that for 1980. Since the 80s however the value of US exports has fallen considerably, from 41 to 26.1 billion dollars. The latest figures for 1986 show that the two blocs are more or less equal. Nor should it be forgotten that since the 60s the United States have considerably increased their exports, to 7.3 billion in the 70s and 41 billion in 1980.

Tear United States &C-10

| Column | Co

1/ Mumbers in parentheses represent EC-12. 2/ Estimates. Sources: USDA and EC.

excluding intro-EC trade

Figure -Agricultural exporte.

8. Secondly, if we look at the trade balances of the two countries in terms of agricultural products exported, we can see that the United States has always been an exporting country although the situation deteriorated in 1985 (estimates for 1986 indicate an improvement) and that the Community has always been an importer of foodstuffs although its deficit has remained more or less constant since 1980.

Trade balance (excluding intra-Community trade)

	United States		£C	
Year	***************************************			
	Total	Agr.	Total	Agr.
	• .	311110	dellece	
170	2.8	1.5	-3.6	-12.7
971	-2.0	1.9	5	-13.0
972	-4.3	2.9	.2	-14.6
173	1.2	9.3	-5.4	-20.B
+14	-3.0	11.7	-24.0	-21.6
975	9.6	12.6	· -12.0	-20.7
174	-7.8	12.0	-18.2	-25.1
. 377	-29.0	10.2	-7.6	-28.7
978	-31.8	14.6	-0.6	-30.0
379	-27.3	18.0	-35.7	35.0
380	-27.4	23.9	-71.6	-31.7
1141 +	-30.0	26.4	-41.5	-20.5
342	-35.2	21.3	-34.2	-21.5
. 983	-40.7	19.5	-23.5	-21.0
184 *	-110.9	18.5	-24.4	-21.4
. 785	-136.7	9.1	11.5	-19.2
1986	-162.4	5.0	na na	RA.

na - not svailable. Sources: USDA and EC. 9. It would be interesting to give the figures for the Community's trade balance deficit in agricultural imports. The same applies to the figures for bilateral trade between the united States and the Community. The balance is in favour of the USA but has been on a downward trend in recent years.

Agricultural support policies in the EEC and the USA

- 10. Your rapporteur analysed the American agricultural policy in the document he submitted in 1985. The policy has not changed much, since it is still determined by the 1985 Farm Bill although it is obvious that the amounts allocated by the state to the different export support programmes have been revised, mainly upwards.
- 11. Without going into the policy in too much detail, it would be useful briefly to analyse the different forms of official aid for agriculture in general in order to compare the two systems. The following table clearly shows the impressive increase in American aid in recent years, particularly in 1986-87.

Figure -Cutlaye for price and income support

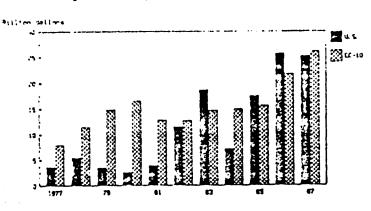


Table -- Outlays for price and income support

Year	united states	e., .u
	military and	
1977	1 4	4.5
1974	5.6	14.5
1979	3.4	14.9
1980	2.7	14.4
1961	4.0	12.9
1902	11.6	12.6
1983	10.0	14.7
1984	7.2	15.0
1985	17.6	15.7
1986 1/	. 25.6	21.8
1987 1/	25.3	26.2

1/ Estimate. Sources: USDA and EC.

12. These figures are particularly significant and interesting because they relate to the country clamouring the loudest for a reduction in all forms of aid in international circles. In addition, if we look at the different products in detail, during the period 1982-84 support for a number of products was higher in the United States than in Europe.

Community efforts to manage production

- 13. We feel it is necessary in this opinion on protectionism and trade relations to emphasize the considerable efforts made by the European Community to control the volume of production since the beginning of the 1980s with a view to reducing tension on world markets.
- 14. Without wishing to analyse the various sectors in which restrictive measures have long since been adopted quotas, guarantee thresholds and recently stabilizers it must be borne in mind that corrective measures aimed at improving control of production and expenditure were adopted by the Community as early as the beginning of the 80s and affected almost all market organizations. These measures can be grouped together under three main headings:
 - a more restrictive pricing policy pursued by the Community once it became self-sufficient in most sectors. The overall drop in institutional prices during the last four marketing years was about 10% and has largely offset the increased productivity rates in the agricultural sector;
 - less permanent and more restrictive intervention. The Commission, often followed by the Council, has tried to restore the intervention mechanism to its original function of safety net and to reduce its attractiveness. Several changes were for instance made to the various market organizations to make intervention more restrictive and prevent it becoming an outlet, as was the case for some products during a certain period;
 - limiting aid by fixing quotas and guarantees. From 1982 on guarantee thresholds were introduced in several surplus sectors, and from 1982 to 1984 almost half of the regulated final agricultural products was subject to a similar system of guarantee thresholds.
- 15. Despite the fact that this policy of controlled production hit farm incomes hard, it was a success. For instance, in the dairy products sector where the situation was disastrous only three years ago, intervention buying—in of skimmed milk powder was limited to 55 000 tonnes in 1986/87, less than one tenth of the quantities bought in in 1986. This is a very important achievement.
- 16. Although the Community has attempted to reduce its own production, it is still very liberal as regards imports, even of products such as cereals. For instance, imports of cereal substitutes into the Community are still increasing.

Community imports of cereal substitutes (m tonnes)

Products	1970	1980	1986
Manioc	1.35	4.86	5.82
Maize gluten	0.59	2.59	4.09
TOTAL	3.69	13.03	15.04

Source: Expocorn, March 1988

- 17. Although something has been achieved by the Community internally, it cannot be said that the world market situation has really imporved; on the contrary, other countries have frequently taken advantage of reduced production in the Community to take its place on the world market. To return to the dairy sector example, latest figures show an increase in world production: the United States in particular have apparently increased their production by 2 million tonnes with the help of existing aid systems. New Zealand and Canada have also seemingly increased their production and thus cancelled out all the positive effects that the sizeable reduction in Community production had had on the world market.
- 18. In addition to the dairy sector specifically, some comment is required at a time when GATT negotiations are getting to the heart of the matter: in the absence of any international agreement, any reduction in prices or production in the Community could well be to no avail mainly because of protectionist trends and increased net exports in all countries, as was recognized in the OECD report 'National policies and agricultural trade' published in 1987. The fact that the summit meeting of the heads of state and government of the EEC in February 1988 called on the Commission to consider this point is to be welcomed.

American restrictions on imports

- 19. Your rapporteur considers it worthwhile to give some examples of regulations governing imports of certain agricultural products to the United States. The United States imposes a system of quotas on a number of agricultural products to control imports. The system applies mainly to dairy products such as cheeses, sugar, including certain syrups containing sugar, some types of cotton and peanuts. Some of these restrictions are covered by a GATT waiver.
- 20. These restrictions have particularly negative repercussions for the world market and Community exports, for instance of sugar. Section 22 of the 1933 Agricultural Adjustment Act permits the imposition of restrictions on imports if imported products interfere with or influence any agricultural development programme. Such potentional restrictions violate GATT Articles II and XI.
- 21. Although a GATT waiver was granted in March 1955, the Community has frequently maintained that there was no longer any justification for it. Community experts believe that without these restrictions Community exports of cheese and sugar, currently worth about 237 million and 150 million dollars respectively, could be considerably higher. During the Tokyo Round the United States agreed that the waivers could be reconsidered. It is important that the Community should try to abolish these restrictions during the Uruguay Round.
- 22. In addition to this system of import restrictions, the United States apply another system that in practice acts as a barrier to imports to their country. When a product for which there is a quota is imported, the American Government insists that it not be given customs clearance whilst it is within American custom premises. Thus importers and exporters are not sure, when the goods arrive in the United States, that the quota has not been reached. If it has, the goods must be re-exported or kept in a warehouse at extra cost until a new quota is opened.
- 23. This procedure clearly constitutes an obstacle to trade. The question arises of whether application of this procedure is always compatible with the import licence procedures provided for in Article 3 of the GATT code.

- 24. Following these two examples of barriers to imports, it is interesting to consider the main American export subsidy systems that constitute the other aspect of protectionism. The 1985 Food Security Act (Farm Bill) allows the American Department of Agriculture (USDA) to use Commodity Trade Incorporation reserves to subsidize exports of American agricultural products.
- 25. The USDA may also use more than 2.5 billion dollars to finance exports. This programme, known as the Export Enhancement Program (EEP) is used for several products - wheat, flour, barley, feedingstuffs, poultry, eggs, dairy cows, all fodder grain, malt, rice, meal, vegetable oils - and for exports to the Community's traditional clients such as Africa and the Middle East. In 1987, the United States added China to the list of countries in which the EEP could be applied. The programme will be continued in 1988 and will have the effect of causing a depression on the world market.
- 26. By 15 March 1988, about 35.1 million tonnes of wheat, 1.6 million tonnes of flour, 5.2 million tonnes of barley, 0.14 million tonnes of poultry, 21.5 million dozen eggs, 64 900 dairy cows, 0.4 million tonnes of malt, 0.26 million tonnes of vegetable oils and 0.37 million tonnes of seeds for feedingstuffs had been subsidized for export under this programme.
- 27. In financial terms, aid already allocated had been estimated at about 1.9 billion dollars. One direct consequence of this American aggressiveness was that the Community had to increase its export refunds. Thus, during the Uruguay Round, it will have to negotiate a reduction in American subsidies in return for the efforts made by the Community since 1984_
- 28. The 1985 Food Security Act contains another programme, 'Target export assistance' under which the Department of Agriculture may allocate 110 million dollars a year up to 1988 and 385 million dollars in 1989 and 1990 or the value equivalent of goods held by the Commodity Credit Corporation for the specific purpose of reacting to the effects of export subsidies or other trade practices considered unfair by the United States.
- 29. The American definition of 'subsidy' is obviously a very broad one. It we includes export subsidies, export duty rebates, financial assistance or g even preferential rates for the funding of export operations, all indirect: aids that could reduce production, processing and distribution costs, all internal consumer quota systems or other methods to ease the availability of the raw materials needed to manufacture the product.
- 30. In 1988, about 110 million dollars have already been included in this programme to promote exports of high value added products such as wine, fruit and vegetables, dried fruit and citrus fruit, particularly to Europe and the East.
- 31. Other types of American aid are more indirect but are no less effective. Cornigluten feed and other cereal substitutes are obtained mainly from the processing of maize into feedingstuffs, sweeteners or even ethanol. For ethe latter two, the United States provides both direct and indirect aid and tax rebates. For instance, sweeteners derived from maize may be peligibile for many types of aid under the agricultural programme, for instance very low prices for maize and an extremely high price for sugar in the United States. Secondly, they may benefit from the particularly estringent restrictions on sugar imports. Similarly, the production of ethanol for use as an additive in petrol has expanded dramatically in recent years mainly thanks to very high fiscal aids in the form of reduced taxes and very high customs duty on imported ethanol. PE

公PE 119.305/fin./Ann

32. All this has very serious repercussions for the Community: with all this aid, the United States can export all of the corn gluren feed it produces at extremely low prices. It should not be forgotten that these low-price exports of corn gluten feed have considerably reduced consumption of the Community cereals as animal feed. It should also be remembered that the Community imports more than 4 million tonnes of corn gluten feed worth 568 million dollars a year from the United States. These imports help to create surpluses in the beef and dairy sectors and represent the equivalent of about 4 million tonnes of Community cereals. Here too the Community must conduct a large scale campaign to reduce these imports.

CON CLUS IONS

- 33. Your rapporteur concludes from these specific examples that the United States is taking a whole series of measures in order better to negotiate in GATT. In the circumstances the Community is risking turning up at the GATT negotiations with a very small margin for manoeuvre mainly because it has imposed restrictions on its own farmers and demanded sacrifices of them.
- 34. Having said this, your rapporteur admits that less protectionism throughout the world could have a dynamic effect on the whole agricultural sector provided all countries make an effort at the same time although it should be borne in mind that each country must ensure availability of foods supplies.
- 35. Your rapporteur would also like the European Parliament to have a greater role in keeping an eye on all the problems of world agricultural trade. He therefore again proposes that an ad hoc working party composed of members of the Committee on Agriculture, Fisheries and Food and of the Committee on External Economic Relations to:
 - monitor all problems affecting world trade in agricultural products;
 - guarantee permanent contact with the Community delegation responsible for negotiations in GATT;
 - report periodically to Parliament on those negotiations.

EUROPEAN PARLIAMENT

CORRIGENDUM

TO THE REPORT BY Dame Shelagh ROBERTS

(Doc. A2-89/88)

on protectionism in trade relations between the European Community and the United States of America

Paragraph 20 to read as follows:

20. Considers that, in order to avoid economic distortions and disruptive trade disputes, it is necessary that the main farm producers who are contracting parties to GATT, including the US and the EC, do not allow internal prices to stabilize at levels which are inconsistent with economic reality; they must also hold talks with a view to the reduction of support for agriculture and the immediate application of market stabilization measures;

Paragraph 23 to read as follows:

23. Considers that the EC/US dispute on the EC hormone ban should be resolved on the basis of consumer and health interests, ascertained by an independent body, barring any "hidden protectionism"; (rest deleted)

Concerns English version only

9 JUNE 1988

European Parliament

PE DOC A 2-89/88/Corrigendum

Report A - Y

drawn up on behalf of the Committee on External Economic Relations on protectionism in trade relations between the European Community and the United States of America

Rapporteur; Dame Shelagh ROBERTS

CORRIGENDUM

9.6.1988

Office for Official Publications of the European Communities L - 2985 Luxembourg

Series: REPORTS

1988 - 1 pp. - Format: 21.0 × 29.7 cm

EN

ISSN 0256-2375

ISBN 92-77-37308-3

Catalogue number: AY-CO-88-119-EN-C

Note to readers

For the text of the resolution adopted, see the Official Journal, C Series, Minutes of proceedings of the sittings of the European Parliament, or the collection of Texts adopted by the European Parliament, distributed at the end of the part-session by the European Parliament of the Office for Official Publications of the European Communities

PE DOC A 2-89/88/Corrigendum

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Rapporteur: Dame Shelagh ROBERTS

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EUROPEAN COMMUNITIES

EUROPEAN PARLIAMENT

