

# European Community

# NEWS

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## REVIEW OF E.C.-U.S. ECONOMIC AND TRADE RELATIONS: 1985 UPDATE

The relationship between the European Community and the United States is of necessity complex. Nowhere is this more apparent than in the sphere of economic and trade relations.

The Community and the United States are the major participants in the international economic and trading system. They support broadly similar aims of strengthening the open world trading system and thereby expanding world trade. At the same time, they are competitors with divergent interests and sometimes different interpretations of the multilateral trading rules.

In spite of occasional difficulties, the relationship has been successful in containing and controlling the many potential points of friction. Consultations at official level, frequent exchanges of visits by Ministers and Commissioners, and close contacts through the E.C. Commission's delegation in Washington and the U.S. mission in Brussels have taken place since the early days of the European Community.

In 1981, it was decided to intensify the dialogue at the political level and a Cabinet-level U.S. delegation led by the Secretary of State has since met each year with a Commission delegation headed by its President.

After the most recent of these meetings, on December 13 in Brussels, Commission President Jacques Delors said the parties had discussed E.C.-U.S. trade conflicts, plans for a new round of multilateral trade negotiations and the world economy "in a climate of close cooperation, united by the values that we share." Secretary of State George Shultz added, "We need to keep reminding ourselves that the United States and Europe have a relationship of tremendous importance, of richness and depth, that goes across the board of matters of concern to all our citizens."

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## THE BILATERAL RELATIONSHIP

There is no formal agreement fixing a framework for the totality of relations between the Community and the United States as there is, for instance, between the Community and many other countries.

The ground rules for the bilateral relationship between the Community and the United States are mostly found in multilateral organizations, especially the ones which bring together the industrialized world, such as the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development.

In the area of trade, the general GATT rules apply and particularly the Most Favored Nation clause. By these the parties set up a relatively transparent nonpreferential structure as regards trade tariffs and, through the GATT rules and codes, accept binding rules for most other matters concerning trade. In terms of quantitative restrictions, trade has been almost totally liberalized.

In certain specific sectors, however, bilateral agreements have been concluded:

### EURATOM/U.S.

This was the first agreement ever signed on behalf of the European Atomic Energy Community (Euratom), less than five months after the Euratom treaty came into force in 1958. The agreement, supplemented by a further agreement in November of the same year, establishes a framework for cooperation in the peaceful uses of atomic energy, including the supply of nuclear fuel to the Community by the United States.

In the late 1970's, the U.S. government requested that the agreements be updated, particularly in regard to safeguards throughout the nuclear cycle. Discussions between the two parties continue on this issue.

### ENVIRONMENT AND WORK SAFETY

In 1974, the Commission and the U.S. Administration agreed to periodic consultations at official level and, where appropriate, common action on environmental questions. In 1979, they agreed to hold expert-level meetings on various aspects of safety and hygiene at work.

### FISHERIES

An agreement was signed in February 1977 regulating access of Community fishermen to the U.S. fisheries zone. This agreement was renewed for the period 1984-89.

### STEEL

As a result of tough negotiations ending October 1985, virtually all Community steel exports to the United States are regulated by arrangements

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in effect until September 30, 1989. The annual volume of these exports is 6 million tons, valued at \$2.5 billion.

The parties agreed to extend an expanded version of the 1982 E.C.-U.S. Carbon Steel Arrangement. It covers 10 steel products restricted under the original 1982 accord, 11 additional "consultation products" covered by an agreement last August, and 10 new products.

Under the 1982 steel pact, the E.C. agreed to limit its shipments of 10 steel categories to an average 5.46 percent of the U.S. market. That quota will increase to 5.57 percent under the new agreement. The 11 consultation products (so described because under the 1982 agreement they could be discussed if shipments to the U.S. increased significantly) will be held to 3.77 percent of the U.S. market.

The negotiated quotas for five of the new products, all stainless steels, will go into effect when the U.S. lifts the quotas and tariffs it imposed on those products in 1983 under Section 201 of the 1974 Trade Act.

Semifinished steel remains a consultation product as established by the 1982 accord. At the conclusion of the steel negotiations, E.C. officials said the Community reserved its right to react if the U.S. imposed unilateral restrictions on this product category. The U.S. announced December 30 that it would restrict imports of semifinished steel from the European Community to 600,000 tons a year beginning January 1, 1986. The E.C. Commission responded that the Community was studying possible retaliatory measures against American imports into the Community.

A January 1985 agreement limiting E.C. exports of steel pipes and tubes to 7.6 percent of the American market was also extended until September 30, 1989.

#### AGRICULTURE

In 1984, the United States had a \$3.6 billion agricultural trade surplus with the E.C., while the Community's deficit in farm trade with the rest of the world amounted to \$20 billion. Over the years the Community, the world's biggest importer of farm products, has been the American farmer's best customer. Furthermore, it is not a competitor for 75 percent of U.S. farm exports.

Nevertheless, the U.S. strongly objects to some aspects of the Community's Common Agricultural Policy. Recent friction in this area centers on two issues—aggressive U.S. competition on third markets, particularly for wheat and dairy sales; and the question of wine.

#### MARKETS FOR AGRICULTURAL PRODUCTS

The United States considers the Community's agricultural export subsidies fundamentally wrong. Yet Article 16 of the General Agreement on Tariffs and Trade allows such subsidies provided they are not used to gain an

unfair share of the world market or to undercut world market prices. The Community believes it has complied with both the letter and the spirit of Article 16, and that the problems of American exporters are due to a number of other factors--particularly the high value of the dollar and stagnating demand on world markets brought about by changed production patterns and a lack of finance in client countries.

In May 1985, the U.S. Department of Agriculture announced the Export Enhancement Program, which will make \$2 billion available over a three-year period to subsidize American farm exports. This program was clearly targeted against Community trade practices.

The Commission quickly condemned this decision as unjustified, and said it could disrupt world agricultural trade. Although the U.S. share of the world wheat market fell from its peak of 49 percent in 1981-82 to 36 percent in 1984-85, the Community is not to blame. Its own share rose marginally during the same period--from 14 percent to 16 percent.

Following the sale of 500,000 tons of subsidized U.S. wheat to Egypt, the Commission felt obliged to react by increasing export refunds for wheat sales in the same area. Further U.S. sales have followed, and the E.C. has continued to defend its markets.

In October 1985, the U.S. announced that it would file a trade complaint against the Community's subsidized wheat sales. The Commission immediately replied that if the U.S. lodged this petition, it would initiate a "parallel procedure" in the GATT against the Export Enhancement Program.

As for dairy products, heavily subsidized exports have enabled the U.S. to increase its share of the world butter market from 0 to 7 percent, and of the milk powder market from 10 to 26 percent, over the last four years. These gains have been made largely at the E.C.'s expense.

#### WINE

Wine is the Community's main agricultural export to the United States, with shipments to the U.S. worth about \$700 million in 1984. As such, it is an export of substantial commercial value and a product of high political sensitivity.

The Community was pleased that in September 1985, the International Trade Commission (I.T.C.) rejected complaints filed by the Grape Growers Alliance for Fair Trade asking the U.S. to impose duties on imported French, Italian and German table wines. The E.C. had argued that the petitions were filed under provisions of the U.S. Trade and Tariff Act of 1984 that violate GATT rules.

These provisions modify the definition of "industry" in the case of wine, thus allowing producers of a raw material to file trade complaints against imported finished products. The legislation is being examined by a GATT panel at the Community's request.

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The Court of International Trade in August 1985 reversed an earlier and separate I.T.C. decision favoring the Community in a case involving trade complaints filed in 1984 by the Grape Growers against French and Italian wines. That case, under appeal by the I.T.C. in the U.S. Court of Appeals, casts a cloud of uncertainty once more over E.C. wine exports to the U.S. since it could lead to the imposition of provisional duties--even though the I.T.C. found twice that Community wine exports had not injured the American wine industry.

Meanwhile, the Community has become a major market for the U.S. wine industry, taking 22.5 percent of its exports in 1984. The E.C. has taken a number of steps to facilitate the entry of U.S. wines.

In 1985, the Community adopted a regulation simplifying certification procedures for U.S. wine imports. This followed two measures adopted in a similar spirit in 1984--a regulation concerning the acceptability of U.S. winemaking processes and a reduction to zero of compensatory charges levied by the E.C. on bottled wine imports, including those from the U.S.

#### GATT AGRICULTURAL DISPUTES

The E.C. and U.S. have also been at odds over the Community's preferential treatment of citrus imports from certain Mediterranean countries. As a result of this dispute, the U.S. in November 1985 raised duties on E.C. pasta imports. The Community immediately retaliated, as it warned it would, by increasing duties on lemons and walnuts from the United States. The E.C.'s position is that the citrus arrangements in question conform to GATT rules, and are designed to contribute to the development of the Mediterranean region. They bring the Community no commercial advantage whatsoever.

The E.C. and U.S. last December resolved a trade conflict involving E.C. subsidies for canned fruit. The Community agreed to cut processing subsidies by 25 percent in July 1986, and to eliminate them entirely by July 1987. The parties have notified the GATT that this matter has been settled.

#### OTHER ISSUES

The Community has expressed its concern to the United States on a number of other issues, including textiles, extraterritoriality and unitary taxation.

The United States Customs Service has implemented rules of origin which could have a severe effect on exports of textiles and apparel from the developing countries to the U.S. and are already having some effect on Community exports.

The Community is pleased that President Ronald Reagan in December 1985 vetoed Congressional legislation aimed at severely limiting textile and apparel imports into the U.S. Although the legislation was not directed at the Community, E.C. officials stated that it could endanger the Multifiber

Arrangement governing textile trade between developing and industrialized countries.

Extraterritoriality also became an issue when Congress renewed in July 1985 the Export Administration Act, which confers on the U.S. Government powers of extraterritorial jurisdiction for reasons of national security and foreign policy considerations. The aim of this law is to make sure that exports or re-exports of U.S. high technology products do not come into the possession of the Eastern trading area countries; the Community regards it as unacceptable for reasons of sovereignty.

Lastly, the unitary taxation system adopted by some states in the U.S. creates an unfair tax burden for Community multinationals with subsidiaries in the United States.

#### E.C.-U.S. TRADE

The Community and the United States account between them for over one third of world trade: the Community has 20 percent and the U.S. has 15 percent. They account for 50 percent of world Gross National Product, and trade between them was worth \$107 billion in 1984. The 10-member Community takes 21.56 percent of U.S. exports and is the United States' biggest market, just ahead of Canada.

The last few years have shown a remarkable increase in bilateral trade between the Community and the United States. E.C. imports have more than doubled, from 25.7 billion European Currency Units (ECUs)\* in 1977 to 61.9 billion ECUs in 1984. In the corresponding period, exports to the U.S. rose from 20.5 billion ECUs to 70.3 billion ECUs.

Over the years E.C.-U.S. bilateral trade has constantly shown a trade deficit for the Community, and at times this deficit has reached dramatic levels--as in 1980, when it was almost 18 billion ECUs. Because of the strength of the dollar, the Community's deficit has, however, decreased. In 1984, the Community had a surplus of 8.4 billion ECUs, although in agricultural trade it still had a substantial deficit.

NOTE: All data in this report are for the Community of 10. Spain and Portugal joined the E.C. January 1, 1986, bringing its membership to 12.

\* See page 7 for a description of the ECU's value against the dollar.

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Trade between the E.C. and the U.S.

	Millions ECU *							
	1960	1970	1975	1980	1982	1983	1984	1985 (6 months)
E.C./IMPORTS	5,470	12,416	20,915	44,601	53,831	53,482	61,032	36,002
E.C./EXPORTS	3,371	9,354	13,295	26,775	42,908	50,275	70,290	40,345
E.C. BALANCE	-2,369	-3,062	-7,620	-17,826	-10,923	-3,207	8,358	4,343

Trade between the E.C. and U.S.  
by Product Categories, 1984

	Millions ECU					
	E.C. Imports	% of Total	E.C. Exports	% of Total	E.C. Balance	
Agriculture	4,174	6.7	1,992	2.8	-2,182	
Tobacco Drinks	743	1.2	2,463	3.5	1,720	
Raw Materials (including oil seeds)	6,876	11.1	694	1.0	-6,182	
Mineral Fuels	2,744	4.4	6,220	8.9	3,476	
Vegetable and Animal Oils	280	0.5	66	0.1	-214	
Chemicals	5,922	9.6	5,415	7.7	-507	
Basic Manufactures	4,197	6.8	11,805	16.8	7,608	
Machinery & Transport Equipment	24,024	38.8	26,998	38.4	2,974	
Other Manufactures	7,030	11.4	9,867	14.0	2,837	

Source: EUROSTAT

\* The exchange rate ECU/dollar varies daily as the various E.C. currencies, which make up the ECU, vary against the dollar. One ECU was worth \$1.00 from 1960 to 1972, \$1.24 in 1975, \$1.39 in 1980, \$1.12 in 1981, \$.98 in 1982, \$.89 in 1983, \$.83 in 1984, and \$.70 for the first 6 months of 1985.

Trade between the E.C. and the U.S.

Millions ECU

E.C. IMPORTS

	1980	1981	1982	1983	1984
EUR 10	44,601	49,584	53,830	53,481	61,932
FRANCE	7,729	7,875	8,202	7,906	8,587
BELGIUM - LUXEMBOURG	3,957	4,065	4,261	4,299	4,529
NETHERLANDS	4,866	5,610	5,982	6,413	7,491
FEDERAL REPUBLIC OF GERMANY	9,724	10,798	11,290	11,356	12,845
ITALY	4,995	5,563	5,936	5,369	6,547
UNITED KINGDOM	11,437	12,905	15,384	15,398	18,829
IRELAND	626	975	1,116	1,326	1,741
DENMARK	913	1,381	1,226	1,014	1,002
GREECE	351	409	430	397	358

E.C. EXPORTS

	1980	1981	1982	1983	1984
EUR 10	26,775	37,168	42,907	50,275	70,290
FRANCE	3,543	5,028	5,338	6,474	9,597
BELGIUM - LUXEMBOURG	1,556	2,108	2,356	3,001	3,997
NETHERLANDS	1,335	1,980	2,196	3,112	4,310
FEDERAL REPUBLIC OF GERMANY	8,508	10,332	11,835	14,466	20,925
ITALY	2,980	4,627	5,284	6,317	10,172
UNITED KINGDOM	7,750	11,518	13,945	14,441	17,577
IRELAND	321	439	588	783	1,192
DENMARK	568	796	973	1,361	2,009
GREECE	211	336	389	315	510

E.C. BALANCE

	1980	1981	1982	1983	1984
EUR 10	-17,826	-12,416	-10,922	-3,206	8,355
FRANCE	-4,886	-2,847	-2,863	-1,432	1,010
BELGIUM - LUXEMBOURG	-2,401	-1,957	-1,904	-1,298	-532
NETHERLANDS	-3,531	-3,630	-3,786	-3,300	-3,181
FEDERAL REPUBLIC OF GERMANY	-1,215	-465	544	3,110	8,080
ITALY	-2,015	-935	-651	948	3,625
UNITED KINGDOM	-3,686	-1,386	-1,438	-956	-1,252
IRELAND	-306	-536	-528	-542	-549
DENMARK	-344	-584	-252	347	1,007
GREECE	-140	-73	-41	-81	152