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E.C.-U.S ECONOMIC AND TRADE RELATIONS

1987 REVIEW AND CURRENT ISSUES

The European Community and the United States are closely linked politically and economically. They are both partners and competitors in the trade sphere, and are active participants in the Uruguay Round of multilateral trade negotiations taking place in Geneva.

ECONOMIC AND TRADE LINKS

The Community and the United States are both leaders in the world economic and trading system. Alone, they account for over 30 percent of world trade, and thus have a major responsibility for the management of the system.

They also represent more than 70 percent of the industrialized world's Gross Domestic Product. In 1986, E.C. investment in the United States amounted to \$124 billion, while U.S. investment in the Community accounted for \$96 billion (of a total U.S. overseas investment of \$260 billion). They are also linked by the size of their combined industrial output: some 35 percent of world steel production, 55 percent of world car production and 70 percent of world aircraft production.

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The Community and the United States are major markets for each other, with trade between them totaling 132 billion European Currency Units* (ECUs, more than \$129 billion) in 1986. The Community of Twelve was by far the U.S.'s leading export market that year, taking \$53.2 billion--about 24 percent--of U.S. exports. By comparison, Canada took \$45.3 billion, or 21 percent, and Japan took \$26.9 billion.

There has been a remarkable increase in bilateral trade between the Community and the United States over the past decade, although the figure fell slightly in 1986. (See chart on page 12.)

Until recent years, the Community regularly ran up a trade deficit with the United States. At times, this deficit was enormously high, as in 1980, when it was almost 18 billion ECU. However, because of the strength of the U.S. dollar, the trend has been reversed. In 1986 the Community had a surplus of 18 billion ECU, although it still recorded a deficit on agricultural products.

While there is no overall agreement between the Community and the United States, some specific accords have been concluded.

Euratom-U.S.

This was the first agreement signed on behalf of the European Atomic Energy Community (Euratom), less than five months after the entry into force of the Euratom Treaty in 1958. This agreement, supplemented by another accord later that year, establishes a framework for cooperation on peaceful uses of nuclear energy, including the supply of nuclear fuel to the Community by the United States.

At the end of the 1970's, the United States Government proposed updating parts of the agreements relating to safeguards throughout the nuclear cycle, and talks have been taking place.

In July 1986, the Community and the United States signed a joint declaration of intent on research into radiation protection. In December 1986, they signed a scientific and technical cooperation agreement on thermonuclear fusion.

Environment

Since 1974, Commission and U.S. Administration officials have held regular consultations to exchange information on environmental issues.

High technology

The Community and the United States in 1983 set up a working party to examine issues related to advanced technology and to pinpoint sectors for cooperation. Discussions take place each year on such issues as biotechnology, semiconductor technology and superconductivity.

The two parties agreed in 1987 to exchange information regularly on technical and political developments in the telecommunications sector. Working parties have been established on technical standards, public procurement, competition and statistics.

SPECIFIC RECENT PROBLEMS

U.S. trade legislation

The Community's major concern about its relations with the United States centers on the trade bill under discussion in Congress. This bill contains many protectionist provisions which would seriously affect the Community, and the E.C. Commission and Council of Ministers have warned the United States against adopting them. Commissioners Willy De Clercq and Frans Andriessen visited Washington last July to discuss this problem with leading members of Congress.

The provisions that most worry the Community are:

- the unilateral redefinition of internationally established trade protection rules (antidumping and countervailing duties);
- the concept of sectoral reciprocity in trade;
- the establishment of new nontariff barriers;
- the limitation of Executive powers in trade policy matters.

The Commissioners made it clear that if such measures were adopted, the Community would be forced to take similar measures. These actions by either side could adversely affect the 5 million U.S. jobs depending on exports, and also the future of the entire international trading system.

Airbus

The United States challenges the subsidies received by Airbus Industrie, a four-nation European consortium. In March 1987, it requested discussions with the Community in the framework of the General Agreement on Tariffs and Trade (GATT) Committee on Trade in Civil Aircraft, and those have been taking place. The two parties are attempting to reach a common interpretation of articles 4 (government-directed procurement) and 6 (government support) of the GATT Agreement on Trade in Civil Aircraft. They have made progress on the interpretation of Article 4, but are still divided on the interpretation of Article 6.

At a ministerial-level meeting in London on October 27, the parties agreed they wanted to resolve the problem by negotiation, and developed guidelines for future discussions. These discussions continue.

The Community denies that Airbus subsidies violate international trading rules. The Civil Aircraft agreement does not prohibit government subsidies; it only obligates countries to try to avoid adverse effects on trade. The U.S. industry would have difficulty proving adverse effects because its sales rose substantially last year.

The U.S. exports annually nearly \$5 billion worth of aircraft and parts to the Community, while the E.C. exports \$3 billion worth to the U.S.

The Community argues that the United States government also supports its aircraft industry—through massive defense contracts and government-funded research and development. The U.S. has spent more than \$75 billion in aeronautical research and development since Airbus was formed in 1970.

Airbus is responsible for major advances in aircraft design, technology and innovation, stimulating technological progress by its major competitors.

Meat plants and hormones

At the request of the United States, a GATT panel is being established to examine the legality of an E.C. directive that the U.S. argues will

obstruct its meat exports. It is the Third Country Meat Directive, which sets hygiene rules for meat plants wishing to export to the Community.

The U.S. is also seeking a GATT ruling on an E.C. directive prohibiting the use of growth hormones in meat.

The Community responds that neither directive discriminates against imports since both set rules that apply within the Community, as well as to third countries. It notes that a number of U.S. meat plants producing for export markets have been approved under the Third Country Meat Directive.

The hormone directive was adopted in response to European consumer concerns, not as a trade barrier. However, for internal reasons, the Community has partially delayed implementation of the directive for a year. While the implanting of hormones in livestock within the E.C. was banned as of January 1, 1988, meat already treated with hormones can be marketed in the Community until January 1, 1989.

The U.S. in December 1987 threatened to retaliate against a list of E.C. products once the hormone ban took full effect. The Community said it regretted that attitude, and would have no choice but to respond with equivalent measures.

Soybeans

The U.S. Administration in January 1988 agreed to investigate a complaint filed by the American Soybean Association against the E.C.'s oilseed and protein crop subsidies. The soybean group charged that E.C. subsidies discriminate against imports of U.S. soybeans and soybean meal, saying those imports have fallen by 40 percent since 1982.

The Community said it regretted the Administration decision, noting that it is the U.S. soybean farmer's best customer. The E.C. regularly takes between 45 percent and 50 percent of all U.S. soybeans and approximately the same percentage of soymeal. In fact, it imported 14 percent more beans and 21 percent more meal from the U.S. in fiscal 1987 than in the previous year.

While E.C. soybean imports from the U.S. have fallen since 1982, over the longer term imports from all sources have increased substantially. Community of Ten (Spain and Portugal excluded) imports of soybeans and meal increased by 68.6 percent between 1974 and 1986--from 10.5 million metric tons to 17.7 million metric tons. However, the United States supplied only 48 percent of the Community's soybean and meal needs in 1986--compared with 76 percent in 1974.

That is because of increased competition from other suppliers. Brazil's exports of these products to the Community since 1982 have almost doubled, and Argentina's have tripled.

It should be recalled that 1982 was a record year for U.S. soybean production. It is normal that exports, including those to the Community, have decreased since then. Furthermore, consumption of protein foodstuffs in the Community is falling because of steps taken to reduce both milk and beef production, and this could affect future U.S. exports.

Partly because of the 1973 U.S. embargo on soybean exports, the Community has developed its production of protein crops. However, its degree of self-sufficiency in 1987 for protein crops was still only 19 percent--and for soybeans and soymeal only 6.5 percent.

The American decision comes more than 20 years after the Community implemented a support system for oilseeds and protein crops and after the Community had already introduced mechanisms for limiting production in this sector. The Community plans to promote further discipline in this sector through restrictive prices, limitations on government purchases and penalties for overproduction. But the filing and acceptance of the American Soybean Association petition will make this task more difficult.

U.S.-Japan Semiconductor Accord

GATT proceedings continue on a 1986 complaint filed by the Community against an agreement on semiconductors concluded between the United States and Japan. The Community believes some aspects of the agreement violate international trading rules and threaten the Community's legitimate interests.

The Community is particularly concerned about two aspects of the agreement: the monitoring by Japan of semiconductor export prices in third countries and the subsequent arbitrary price increase for Japanese semiconductors on the Community market; and the potentially privileged access of U.S. firms to the Japanese market.

The Community argues that it should determine for itself whether Japanese semiconductors are being sold below fair value in Europe, and whether such sales injure the E.C. industry.

U.S. Import Measures

GATT panels in 1987 condemned two U.S. import measures that the Community had complained were discriminatory--the "Superfund" tax on oil imports and the "customs user fee," which is in fact a supplementary customs duty. The Community expects U.S. authorities to adapt their regulations to comply with the panels' reports.

Fisheries

An agreement on access by Community fishermen to U.S. fishing zones was signed in February 1977, and renewed for the period 1984-89. The Community has complained to the United States that the proposed 1988 E.C. quotas on squid and mackerel are lower than the 1987 quotas without good reason. In the case of squid, the Community believes the proposal violates the letter and spirit of the Magnuson Fishery Conservation and Management Act and the E.C.-U.S. fishing agreement.

RECENT SETTLEMENTS

Pasta and Citrus

The Community and the United States in August 1987 resolved a longstanding conflict over E.C. export refunds (subsidies) for pasta products. The United States argued that the refunds violated international trade rules prohibiting subsidies for processed products.

The E.C.-U.S. accord, which took effect October 1, 1987, does not challenge the principle of the E.C. pasta refunds. However, the Community agreed to

reduce its refunds for pasta exported to the United States by 27.5 percent. It also agreed to ensure that 50 percent of its pasta exports to the U.S. take place under a system known as "inward processing relief." Under this system, the Community imports a primary product--in this case durum wheat, which comes almost exclusively from North America--without applying import levies, and exports an equivalent amount in pasta products without export refunds.

The United States, for its part, agreed not to restrict E.C. pasta exports nor to reopen the pasta dispute at GATT level.

The pasta dispute was earlier entwined with a separate trade conflict over E.C. tariff preferences for citrus fruit from certain neighboring Mediterranean countries. Because of its objections to these preferences, the United States in 1985 slapped high customs duties on pasta products from the Community. The Community retaliated by increasing duties on walnuts and lemons from the United States.

This dispute was resolved in August 1986, when the parties agreed to reduce tariffs or increase quotas on certain products--the Community on citrus fruit and almonds, the United States on products affecting Mediterranean countries, notably olives and olive oil. The United States agreed not to make further complaints about the E.C. Mediterranean citrus preferences. The two parties also agreed on a "modus vivendi" for resolving the pasta dispute.

Enlargement

In January 1987, the Community and the United States settled a dispute over import measures resulting from the E.C. enlargement to include Spain and Portugal. The U.S. had objected to provisions of the Accession Treaty that it claimed would adversely affect its corn, sorghum and soybean exports. The Community argued that the effects of enlargement had to be evaluated as a whole, without singling out the agricultural sector. Spain and Portugal's trading partners, it noted, would benefit from a significant reduction in customs duties on industrial products entering the two new member states.

Following particularly difficult negotiations during which the parties threatened retaliatory and counterretaliatory measures, the parties signed a four-year agreement. The Community agreed to buy 2 million tons of corn and 300,000 tons of sorghum annually at reduced levies, and to reduce customs duties on a range of industrial and processed agricultural goods. It also agreed that Portugal would no longer reserve 15 percent of its grain market for E.C. suppliers as provided in the enlargement treaty.

The Community has had practical difficulties importing the required amount of corn and sorghum for 1987, and the United States early this year agreed to extend the deadline for imports from February until the end of June 1988.

Steel

Steel trade has been a source of recurring friction between the Community and the United States. Following a series of negotiations, the last of which ended in September 1986, virtually all the Community's steel exports to the United States (about 6 million tons a year) are now covered by restraint arrangements which will expire in September 1989.

AGRICULTURE

The United States often attacks the E.C.'s Common Agricultural Policy (CAP), charging that export subsidies give European farmers an unfair advantage in world trade. The Community argues that these subsidies comply fully with GATT rules, and moreover that the U.S. has a wide range of subsidies of its own. Budget estimates for 1986 show the United States spent more than \$7,000 per head of farming population, compared with \$2,800 by the Community.

The Community also emphasizes in response to allegations of protectionism that it remains the U.S. farmer's best customer and the world's biggest importer of agricultural products. It has traditionally run a trade deficit in agriculture with the United States. In fiscal year 1987, the Community easily retained its position as the U.S.'s main export market, taking \$6.8 billion--or almost 25 percent--of U.S. farm exports (compared

with \$5.6 billion for Japan). This enabled the U.S. to enjoy an increased farm trade surplus of \$2.6 billion with the Community.

Tensions between the Community and the United States over agriculture stem largely from the decline in U.S. farm exports, which fell from \$48 billion in fiscal year 1981 to \$26 billion in fiscal year 1986. They have begun to recover, however, rising by 6 percent in fiscal year 1987. The Community has long argued--and this view is now widely accepted--that the decline was primarily due to the high dollar in the early 1980's, U.S. price support levels and increased self-sufficiency and lack of money in developing countries.

The United States since 1985 has embarked on an aggressive policy of increasing its share of world agricultural markets. One example of this is the Export Enhancement Program, which has provided \$1.5 billion worth of commodities to U.S. exporters since early 1986 to help them boost agricultural sales, especially of wheat, on foreign markets. The U.S. plans to continue this program.

The E.C. Commission has condemned this move, which it believes is unwarranted and has disrupted world trade in agricultural products.

These frictions are the manifestation of a deeper phenomenon: the structural imbalances at world level in several agriculture sectors, which require serious changes in agricultural policies in the main producing countries. The Community has readjusted the CAP over the last few years with substantial results in production, particularly in the milk, beef and grain sectors. The Community hopes these adjustments, which are extremely hard on European farmers, will be accompanied by similar modifications in the farm policies of the United States and other trading partners. For this reason, the Community attaches particular importance to the agriculture discussions that are taking place in the Uruguay Round of GATT talks.

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BACKGROUND

Although there is no formal agreement establishing a general framework for relations between the Community and the United States, contacts between the two sides are frequent: consultations between officials, exchanges of visits by U.S. Secretaries and E.C. Commissioners, and close contacts through the Commission Delegation in Washington and the U.S. Mission in Brussels have taken place since the founding of the Community. Members of the U.S. Congress and the European Parliament also meet twice annually.

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

The ground rules applied to the bilateral relationship between the Community and the United States are those of multilateral organizations such as the GATT and the Organization for Economic Cooperation and Development (OECD). In trade, general GATT rules apply, notably the Most Favored Nation clause. Thanks to these rules, the GATT contracting parties have been able to set up a relatively transparent nonpreferential structure for trade tariffs and, through the GATT rules and codes, accept binding arrangements for most other matters concerning trade. In terms of quantitative restrictions, trade has been almost totally liberalized.

The Community and the United States cooperated to launch the Uruguay Round of GATT negotiations in September 1986. The talks are covering agriculture, services, intellectual property rights, textiles, safeguards, dispute settlement and other subjects.

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Trade between the European Community and the U.S. by Country

	Millions ECU*		
	<u>1986</u>		
	IMPORTS	EXPORTS	BALANCE
FRANCE	7,958	8,985	1,027
BELGIUM-LUXEMBOURG	3,712	3,714	2
NETHERLANDS	6,509	3,914	-2,595
FEDERAL REPUBLIC OF GERMANY	11,747	25,943	14,196
ITALY	5,796	10,673	4,877
UNITED KINGDOM	13,960	15,462	1,502
IRELAND	1,526	1,117	-409
DENMARK	1,150	1,901	751
GREECE	349	408	59
PORTUGAL	657	514	-143
SPAIN	3,278	2,519	-759
E.C. TOTAL	56,642	75,150	18,508

1987
January - September (1)

	IMPORTS	EXPORTS	BALANCE
FRANCE	5,661	6,593	932
BELGIUM-LUXEMBOURG	2,751	2,675	-76
NETHERLANDS	4,560	2,604	-1,956
FEDERAL REPUBLIC OF GERMANY	8,408	17,640	9,232
ITALY	4,310	7,005	2,695
UNITED KINGDOM	10,497	11,340	843
IRELAND	1,256	759	-497
DENMARK	949	1,213	264
GREECE	206	447	241
PORTUGAL	443	384	-59
SPAIN	2,299	1,769	-530
E.C. TOTAL	41,340	52,429	11,089

Trade between the European Community and the U.S.

	Millions ECU*							
	1960	1970	1975	1976	1980	1985	1986	1987 (9 months)
E.C. IMPORTS	5,920	13,425	23,391	28,308	47,735	68,942	56,642	41,340
E.C. EXPORTS	3,480	9,773	14,058	17,285	27,760	85,523	75,150	52,429
E.C. BALANCE	-2,440	-3,652	-9,333	-11,023	-19,975	16,581	18,508	11,089

(1) Provisional figures

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Trade by Group of Products - 1986**

	Millions ECU*		
	E.C. Imports	E.C. Exports	E.C. Balance
Agriculture	3,422	2,272	-1,150
Tobacco, Beverages	808	2,398	1,590
Raw Materials (including oilseeds)	5,620	649	-4,971
Mineral Fuels	2,841	3,201	360
Vegetable and Animal Oils	186	95	-91
Chemicals	6,087	5,333	-754
Basic Manufactures	3,856	11,313	7,457
Transport Equipment and Machinery	23,415	32,872	9,457
Other Manufactures	6,892	12,232	5,340
Not Elsewhere Specified	3,515	4,786	-1,271
TOTAL	56,642	75,150	18,508

*The exchange rate ECU/dollar varies daily as the various E.C. currencies that make up the ECU vary against the dollar. One ECU was worth \$1 from 1960 to 1972, \$1.24 in 1975, \$1.12 in 1976, \$1.39 in 1980, \$1.12 in 1981, \$.98 in 1982, \$.89 in 1983, \$.79 in 1984, \$.76 in 1985, \$.98 in 1986, and \$1.13 for the first 9 months of 1987.

**The above table's product breakdown follows the Standard International Trade Classification (SITC). Agricultural products appear in four locations in the classification.

Source for Charts: Statistical Office of the European Communities (Eurostat)

