

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(80) 303 final

Brussels, 29th May 1980

## RELATIONS WITH THE INDUSTRIALISED COUNTRIES

(Communication from the Commission to the European Council)

COM(80) 303 final

## RELATIONS WITH INDUSTRIALISED COUNTRIES

### Introduction

1. This note discusses the problems to be faced after last year's successful conclusions of the GATT Tokyo Round negotiations, the prospects for trade relations between the major industrialised countries, and ten principal current issues in the Community's relations with the United States and Japan.

### Progress since the Tokyo Summit

2. The Tokyo Summit was able to note the effective conclusion of these negotiations in April of last year. Thus the reference to trade policy in the Communiqué was that "the agreements reached in the Tokyo Round are an important achievement. We are committed to their early and faithful implementation. We renew our determination to fight protectionism. We want to strengthen the GATT, both to monitor the agreements reached in the MTNs and as an instrument for future policy in maintaining the open world trading system. We will welcome the full participation of as many countries as possible in these agreements and in the system as a whole."

3. The Tokyo Round agreements were formally signed in Geneva in December. The tariff concessions began to be implemented in stages on 1 January 1980 among the major participants. A wide range of MTN non-tariff barrier codes (those on subsidies and countervailing, technical barriers to trade, civil aircraft, antidumping, licensing, and meat and dairy arrangements came into effect at the beginning of this year). It is planned that the code on customs valuation will enter into force on 1 July this year and that on government procurement at the beginning of 1981.

4. These agreements have played a major part in preventing, so far, any significant outburst of protectionism. They have consolidated the multilateral trading system embodied in GATT as the basic relationship, notably between the entrepreneurial economies of Western Europe, North America and Japan. But the economic outlook and the prospects for the maintenance of a world open trading system are not encouraging.

### Outlook for trade relations between industrialised countries

5. The outlook for 1980 in particular is not encouraging. The volume of world trade grew by nearly 7% in 1979, following a 6% increase in 1978, more or less in parallel with the growth of production in OECD countries from over 4% in 1978 to about 5% in 1979. GDP growth in the Community is now expected to be approximately 1<sup>1</sup>/<sub>2</sub>% in 1980. The two immediate problems relate to inflation and the general level of economic activity over the remainder of this year. For the industrial countries as a whole the rate of increase in consumer prices has been accelerating for the past eighteen months with very little prospect of any relief. The return of two-digit inflation rates in several large industrial countries and the reversal of the downward trend of price increases in others represented, as the GATT Secretariat pointed out in February of this year, a major policy setback.

6. The economic outlook for Japan is much better than for either Europe or the US, where inflation and rising unemployment are much greater problems. Japan has gone from a very big surplus in 1978 to deficit (current account) in 1979. The American deficit has been reduced. The Community is also in current account deficit; but it additionally had in 1979 large bilateral trade deficits with both the US (\$ b.) and Japan (\$7b.). Japan per contra has large bilateral surpluses with both the U.S. and the EC.

### EC and US bilateral trade with Japan

7. While no-one would argue that bilateral trading balances should be the central preoccupation of either US-Japan or EC-Japan relations, they loom very large in post-MTN thinking, being politically "visible". That is why both the Commission and the US Administration, separately, press Japan strongly to secure a real opening of the Japanese market to trade and investment. In 1979 the US bilateral trade deficit was halved while that of the Community grew. In the first 4 months of 1980 the trade gap of the EC with Japan was larger than that of the US - and this was on a much smaller volume of two-way trade. The outlook for us is gloomy since the EC has lost a lot of its competitive edge (mainly because of currency movements) and the prospect is now zero growth for total Japanese imports of manufactures, and the U.S. market shrouded in uncertainty.

### Current problems

8. Against this background, protectionist pressures have strengthened generally over the last year. Low growth, higher inflation, large budgetary deficits, interest rates often at a crippling level, and general uncertainty, have made far-ranging structural adjustment in particular extremely difficult. This is not to say that a breakdown of the open world trading system is imminent or inevitable. Indeed, it is remarkable testimony to the strength in particular of the GATT mechanisms and the impact of close consultation over the last decade among the major industrialized countries that the line against "beggar-my-neighbour" policies has by and large been held. But the situation remains a dangerous one.

9. The current range of trade issues that the Community faces with the U.S. and with Japan can be exemplified as follows.  
With the U.S. :

Steel

EC steel exports to the U.S. could, in theory, be virtually brought to a halt by the present antidumping action against Community producers. The Commission has warned the U.S. Administration about the consequences of such an unacceptable development. The Administration itself is under various legal and other constraints in seeking an acceptable way out, and it is still too early to say how best to solve this problem which affects \$ 1 1/2 billion of Community exports.

'Material Injury'.

One of the Community's achievements in the Tokyo Round was the insertion of a "material injury" criterion into U.S. countervailing-duty law. The first determinations of "material injury" under the new law will be made in June and will cover a number of sensitive Community items such as canned hams (E.C. exports : \$ 200 million). The Commission has made it clear to the Administration that a failure to give real meaning to the "material injury" test would undermine the credibility of U.S. implementation of the new GATT rules.

Energy and feedstock "dual pricing"; and U.S. exports of chemical fibres  
Although a start has been made in phasing out dual pricing in the U.S., the Community has had to take safeguards and antidumping action against certain American exports because of the distortions of competition already experienced, and the damage caused to Community producers.

With Japan:

Japanese imports of manufactures

To achieve a healthier relationship with the E.C., Japan must step up its imports of manufactures and processed agricultural products. There remain a number of technical and administrative difficulties in exporting to Japan, as well as protectionist quotas or tariffs for certain agricultural items and for footwear.

Residual quantitative restrictions in the Community

Japan wishes these to be terminated. Certainly it is timely to consider what start could be made, for political, trade policy and indeed industrial strategy reasons, to bring the formal basis of the bilateral relationship more up to date.

### Cars

10. A current trade issue which links Europe, North America and Japan is the pressure in the U.S. to introduce import restrictions on cars, primarily against Japan but possibly also against the Community. The U.S. Administration has taken a firm stand against protectionist measures. To encourage this, Japan recently made a number of moves to facilitate imports to Japan of certain automomotive parts and components. This move could benefit some Community exporters to Japan.

### Conclusion

11. The maintenance of the open world trading system of the post-war years depends of course on the political will of the Governments of the major trading nations. The political will to fight protectionism and pursue liberal trade policies was successfully manifested in the conclusions of the Tokyo Round - the biggest and the most complex international trade negotiation ever held - and held at a time of severe economic recession. Moreover, it is axiomatic that the economic system of the free world is supported by the US/EC/Japan tripod. Each maintains close and varied contacts bilaterally with the other two (though the EC/Japan side of the triangle is the weakest one). There is on all sides a willingness to try to make the Tokyo Round accomplishments work and to preserve the present trading system against the forces of protectionism. But "crisis-management" - including dealing effectively with the kind of problems that are no more than exemplified in paragraph 9 above - will require a lot of determination, and hard work, in an American election year which is also a year of recession for the U.S. and Europe.