

COMMISSION OF THE EUROPEAN COMMUNITIES

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INTERNATIONAL TRADE PROBLEMS

(Communication from the Commission to the European Council,
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Background note by the Commission

The Community faces some difficult problems in the field of international trade. This note sets out and comments on some of the more difficult as background to a discussion in the European Council.

2. World trade, which rose in volume by 6% in 1979 compared with 1978, is expected to grow only between 2% and 3% this year over 1979; the figure for 1981 is expected to be in the region of 2%. All this means growing protectionist pressures both in the Community and in our main export markets and a growing threat to our exports. It also gives added weight to the conclusion of the Venice Summit in June of this year that "we are resolved further to strengthen the open world trading system. We will resist pressures for protectionist actions which can only be self-defeating and aggravate inflation". It is against this general background that some of our main problems must be seen.
3. The difficulties in the external economic field cannot be solved by means of commercial policy alone. They result from the fact that the European economy with respect to third countries and especially Japan has lost in some critical sectors its former competitive advantage in part or entirely. This is true not only in the European market but especially in the Far East, the USA and the Middle East. The recovery of the maintenance of the international competitiveness of European industry must be a priority objective of economic and industrial policy in the Community.
4. Trade with Japan has featured in discussion at a number of previous European Councils. Annex A sets out the current state of affairs. After a discussion of a possible joint Community approach at the General Affairs Council of 25 November the problem will be taken further in discussion with Mr Ito, the Japanese Foreign Minister, when he visits Brussels on 11 December and in exploratory discussions at official level early next year. Thus the first meeting of the European Council in the Spring of 1981 may well find the problems of our trade with Japan high on its agenda.

5. The current Multi Fibre Agreement governing world trade in textiles, in particular access to developed countries for the textiles of developing countries, runs out at the end of 1981. There is now rising pressure from industry in Community countries for a tough successor agreement. The timing and tactics of our approach here need to be carefully considered. There is broad agreement among Member States that a successor arrangement of some kind will be necessary if a jungle of national restrictions across the world is to be avoided. The negotiation of a new agreement will involve a delicate balance between the needs of our domestic industry and our need for a constructive relationship with the developing countries, all the more necessary at the time of the global negotiations in New York next year.
6. By the end of this year we, with the other signatories of the agreement, will need to say whether we consider a further agreement of some kind necessary. The negotiation of such an agreement would take place in the second half of 1981.
7. Concern has been voiced by European industry about American exports of petrochemicals and synthetic fibres based on artificially low prices in the United States of oil and natural gas. Annex B sets out where we stand on this issue. The essential point is that wherever action has been possible and compatible with our GATT obligations the Community has taken it; thus the Commission authorized in February restrictions on imports of certain synthetic fibres into the United Kingdom where injury or the threat of injury could be demonstrated and in a number of cases anti dumping action has been taken. It would be difficult for the Community to take further action to increase tariffs or to restrict imports without violating existing GATT rules. Moreover such action would probably militate against our interests as the world's biggest exporter. The Commission recognizes that there remains in this field a very serious problem. We are in consultations with the U.S. Administration. In the meantime the European Council might wish to issue a statement to emphasize the importance the Community attaches to this question. A draft is attached at Annex C.

8. The main axis of the Community's policy should continue to be to give full effect to the results of the multilateral trade negotiations and to the strengthening of GATT.

Japan

Trade with Japan has featured in discussion at a number of previous European Councils; in particular a Commission note SEC(79) 923 of May 1979 analysed the problems involved and recommended continued pressure on the Japanese. At the end of the Tokyo Round last year it became clear that with the exception of some useful steps in removing testing restrictions the Japanese response has been meagre. It also became increasingly clear that our present commercial relationship with Japan - with its absence of a common Community approach and a patchwork of long-standing bilateral national restrictions by Member States - was hardly suitable for a Japan-EEC relationship in the 1980s.

2. So in July of this year the Commission put to the Council proposals for a new look at our relationship with Japan; these included exploration of the possibilities of removing trade restrictions on both sides and discussions on industrial cooperation. These proposals were discussed by the General Affairs Council in July but no decision was taken; partly in the light of press reports of this discussion the Japanese attitude hardened; Japanese exports to the Community also began to rise alarmingly.
3. In view of this the Commission invited Mr Okita, the Japanese Minister responsible for external trade negotiations, to visit Brussels. This he did on October 27. Vice-President Haferkamp and his colleagues emphasized to Mr Okita on this occasion the need in particular for Japanese restraint in exports to the Community and for a fundamental change in the Japanese attitude towards imports. The Japanese Government issued a statement on 17 November indicating in general terms its concern at Community difficulties and its willingness to examine issues.

4. In the light of these developments the Commission has put informally to Member States revised proposals for the outline of a common Community approach to Japan; after discussion of them by the General Affairs Council of November 25 the Commission will be able to put them to Mr Ito, the Japanese Foreign Minister, when he visits Brussels on 11 December and explore whether there is a political will on the part of the Japanese Government to engage in a dialogue with the Community on this basis. A considered Japanese reply would be forthcoming when the next High Level Consultations with Japan take place at official level in Tokyo on January 28/29. In the light of the considered Japanese response it will be for the next Commission to report and if necessary put forward to the Council proposals for action. Thus the first meeting of the European Council in the Spring of 1981 may well find this item high on its agenda.

Trade in petrochemicals and synthetic fibres

Concern has been voiced by European industry about American exports of petrochemicals and synthetic fibres based on artificially low prices in the United States of oil and natural gas. The price differential on oil should be phased out by the autumn of next year but that on natural gas will not be phased out until 1985. In the meantime European chemical producers complain that US exports which benefit from these advantages are having a damagingly depressive effect on European prices.

2. There is no provision in the GATT to prohibit domestic price controls on raw materials resulting in access to supplies much cheaper than world market prices. The conjunction of such price controls with export restrictions (which exist in the US) can under certain conditions be challenged in the GATT but these provisions are extremely complex, have never been used, and in any case do not provide for unilateral counter action. But there are provisions in the GATT for emergency action when imports are causing or threatening serious injury to domestic producers and for anti-dumping action. The Commission has taken action under these provisions whenever the situation justified it.
3. Thus the Community authorized action in February of this year to limit imports into the United Kingdom of polyester filament yarn and nylon carpet yarn; in both cases it was found that serious injury was being caused by imports. It was not felt that the case for action on man-made fibre carpets was sufficiently established. It was not easy to negotiate compensation with the Americans in respect of the first two items. Indeed, the Americans have publicly announced that continuation of these measures after the end of the year will provoke retaliation on their part.
4. In addition to the action taken on synthetic fibres we have also exercised our full rights in relation to anti dumping. At the end of 1979 we imposed a provisional anti dumping duty on acrylic fibres followed by a definitive duty in May of this year. In early September we imposed anti dumping duties on various types of polyester yarn. We have opened anti dumping investigations into vinyl acetate monomer and styrene monomer as well as orthoxylene and paraxylene.

5. All these actions have been in conformity with our GATT obligations. It should go without saying that fulfilment of these obligations is of crucial importance to the world's biggest exporter. The value of our export trade to the United States alone is of the order of 34 billion dollars.
6. The Commission recognizes that there remains a serious problem. We have suggested to both the Americans and the European chemical industry that our consultations with the U.S. Administration on this should be continued with the help of experts from industry; this has been accepted by the Americans and we hope the first of this pattern of consultations will take place in December. A report will then be made to the General Affairs Council.

ANNEX C

The European Council discussed the difficulties resulting for European chemical and synthetic fibre manufacturers from the artificially restricted level of oil and natural gas prices in the United States. The Council recalled the conclusion of the Tokyo Summit in June 1979 that "we agree on the importance of keeping domestic oil prices at world market prices or raising them to this level as soon as possible". The Council instructed the Commission to engage urgently in consultations with the US authorities in order to explore the possibility of eliminating these distortions to international trade. The European Council asked the Council to examine this problem in the light of reports from the Commission.