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## Report

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Economic Relations

on economic and commercial relations between the  
European Community and the United States of America

Part B: Explanatory statement

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C O N T E N T S

	<u>Page</u>
B. EXPLANATORY STATEMENT .....	1
ANNEX I - Motion for a resolution (Doc. 1-1091/82) .....	52
ANNEX II - Motion for a resolution (Doc. 1-732/82) .....	54
ANNEX III - Motion for a resolution (Doc. 1-720/83) .....	56
ANNEX IV - Opinion of the Committee on Economic and Monetary Affairs .....	57



EXPLANATORY STATEMENTI. THE FUNDAMENTAL CHANGE IN TRANSATLANTIC ECONOMIC RELATIONSINTRODUCTION

1. The European Community and the United States of America represent the two pillars of the Western political and economic system. They are intimately linked by a common political and cultural background and share a large number of common interests and ideals. Both have done a great deal to develop the concept of a democratic society and are now faced with the task of presenting a common approach to the challenges facing democracy from the worldwide economic crisis, social problems and threats to security.

The Community as a whole is the United States' most important trading partner and political ally. It is the second largest industrial power in the world after the United States and its aggregate GNP is in fact even larger than that of the USA.

2. After the Second World War the United States played an active part in the economic recovery of Europe firstly with the Marshall aid plan, then partnership in the OECD (formerly OEEC) and finally it encouraged progress towards European unification and the expansion of the Community. There has therefore been concern in Europe at the fact that in recent years certain tensions have developed in trade relations between the Community and the USA which in the course of 1982 reached crisis proportions. Although the settlement of the dispute on the construction of the European-Soviet natural gas pipeline and the autumn 1982 steel agreement (see below) have led to a temporary relaxing of tension in transatlantic relations, the escalating conflict in the field of agricultural policy, the re-emergence of differences of opinion on steel and the problem of the extra-territorial nature of export controls still present serious problems.

3. Greater cooperation and coordination of all types of economic and political links between the United States and Europe on the principle of an 'equal partnership' are essential if any progress is to be made toward solving mutual and international economic, trade and monetary problems. This in turn

requires the intensive use of all channels of exchange and communication that exist in a variety of bilateral and multilateral forms between the Community and the USA, e.g. within the General Agreement on Tariffs and Trade (GATT), the OECD or the annual Western economic summits. At the next world economic summit in London this year it will be necessary to formulate a coordinated policy on current deep-seated trade and monetary problems. High-level talks take place twice a year in Brussels or Washington between the Commission and representatives of the American Government on bilateral and multilateral problems relating to trade and economy. The United States has representation at the European Community and the Commission has a permanent delegation in Washington.

4. Regular meetings have been taking place for over 10 years between delegations from the European Parliament and the US Congress. These meetings have now become an institution. This enables European interests to be made known to American congressmen, whose views are strongly influenced by internal US considerations and who tend to see European and global problems from the standpoint of superpower interests.

5. Relations between the United States and the Community are also covered by a series of bilateral agreements. The 1977 Fisheries Agreement, which is provisionally in force until 1 July 1984, regulates catch quotas within the 200-mile limits off the USA by Community fishing vessels. The 1982 Steel Agreement seeks to limit and safeguard European carbon steel exports to the United States until December 1985. There is also an agreement on supplying the Community with nuclear fuel (1958) and cooperation on the peaceful use of nuclear energy (1959). This latter agreement was amended four times in the period 1960-1972 to take account of technological developments and also forms the basis for the export of nuclear materials purchased in the USA and processed in Europe.

#### The economic situation in the United States and in the Community<sup>1</sup>

6. Since the most recent recession in '81 and '82 there has been an extraordinary reversal of trends in the US economy. Average economic growth for 1983 was 3.5%, the rate of inflation settled down at 3.2% and unemployment

<sup>1</sup> For footnotes see 'References' pp. 42 and 43

fell by 2.5 points from its peak in December 1982 to 8.2%. Nine million Americans are still out of work, but about 4 million new jobs had been created within a year. By the end of 1983 industry was working at nearly 80% of capacity, and, despite high interest rates, the US Conference Board forecasts that investment will increase by 7% and industrial production by 9.8%. It also predicts a possible 5.4% rise in GNP. This constructive picture is however marred by high budget deficits and interest rates which, according to the latest OECD annual economic report on the USA, could jeopardize lasting and stable expansion. The budget deficit (\$185,000 million in 1983) will probably break through the \$200,000 million barrier in the 1984 budget, so that a fall in interest rates is unlikely. In the past, large budget deficits and high interest rates have meant that the dollar has been overvalued, which has had a disastrous effect on the US balance of trade. In 1983 the foreign trade deficit was about \$70,000 million, and the 1984 figure is estimated at about \$100,000 million.

7. The reduced export opportunities and rising demand for foreign products on the US domestic market accompanying the high dollar exchange rate have severely curtailed the competitive ability of US industry and agriculture. To this must be added the structural problems of a number of traditional trouble spots in the US economy (e.g. steel, textiles) which are already highly vulnerable to foreign competition. Against this background there has been an increasing tendency in the US to blame the economic behaviour of her trading partners for some of her difficulties, and to wring concessions out of them. However, without adequate stimuli for expansion, the economic difficulties facing Europe are far greater than those facing the USA. Thus unemployment in the Community is expected to rise still further to 13 million in 1984 alone. As foreign trade is far more important for the Community than for the USA, difficult negotiations are likely on the question of whether for example American industry is 'harmed' by European imports or whether the Community has achieved more than its 'fair' share of the world market by means of subsidized exports.

## The world economy

8. After the Second World War, the USA enjoyed a virtually unrestricted leading position in the world economy for many years. This position however changed as the world economy developed. Under the aegis of the United States' political and economic leadership there was an enormous growth in the world economy and international trade. As part of the liberalization brought about by the GATT rounds, world grew disproportionately rapidly in relation to world production and there was considerable growth in international links, particularly between the industrialized nations. This led to greater international competition and temporary production advances began to play an ever more important role.

9. But not only trade relations changed, the parties themselves changed with new elements becoming involved. The creation of larger economic areas such as the European Community, the penetration of Japan into world markets and the rise of the newly-industrialized countries led to a shift of balance in the international economic system and redirection of the flow of trade.

10. The US economic response to the shift in circumstances and in particular the challenge from Europe was to take the dollar off the gold standard and temporarily introduce a 10% import tax in 1971 with the following effects: it stimulated European efforts towards diversification of trade relations (the search for new markets and sources of supply) and led to the association policy of Yaoundé and Lomé with preference agreements for developing countries (ACP States). As a result of the policy of détente, economic relations between the Community countries and COMECON also surged ahead, so that by the end of the '70s Community exports to COMECON were roughly two thirds as high as Community exports to the USA.

## The American approach to trade policy

11. These developments led to a shift in the United States' trade policy vis-a-vis its main trading partners and in particular the Community. When the US balance of trade and balance of payments moved into the red towards the end of the '60s and beginning of the '70s, the United States' role as the leading protagonist of a free world economic order and free world trade became burdensome<sup>2</sup>. The standard American expression 'free trade' was increasingly replaced by 'fair trade'. The USA sought concessions from its



trading partners, particularly the Community. This is surprising inasmuch as the United States, as we have stated above, not only accepted the process of European unification, and in particular economic integration, but actively encouraged this on the political grounds that only an economically strong and integrated Western Europe could prevent the spread of Communism in Europe. The possibility that the Europeans could become competitive played a minor role and was viewed as the price which one was prepared to pay to strengthen Western Europe politically, economically and militarily in the interests of American security. By the beginning of the 70's however, Western Europe had become integrated economically and the ideological and military threat from Communism was seen as minimal. This Western European integration now appeared to have been at the expense of the USA. The hitherto neglected view of Europe as a competitor now came to the fore and the American strategy towards the European Community changed. Although the process of European unification was still welcomed, it was said that the Europeans should demonstrate greater willingness to share with the United States the burden of a stable world order. The Community should limit the disadvantages to the USA of its policy of enlargement and association and relax its regional measures to allow greater access to the market for American goods. This was one of the main US objectives in the Tokyo Round of the GATT negotiations (see paragraph 67).

12. Although the Community made concessions to the United States on tariffs during the Tokyo Round, there appears to be a growing view in the USA that American interests suffered during both the Tokyo and Kennedy Rounds of GATT. The penetration of Europe and Japan on world markets has tended to strengthen rather than weaken this view. Moreover, the American balance of trade has been in deficit for years, the deficit has grown and exports from newly industrialized countries and Japan have been exerting noticeable pressure on domestic American markets for some time.

13. US administrations traditionally favour a free trade position and seek to moderate demands from economic interest groups for greater protection. Protectionist pressures have however become harder to resist. The loss of competitiveness in entire industries in national and international markets consequent on the high dollar exchange rate has led to a rash of bills in Congress such as the Trade Remedy, Fair Trade Steel, Wine Equity, Reciprocity, Local Content and Buy American Bills, the purpose of which is to prevent or

limit imports or to establish reciprocity in trade. Until now the US administration has rejected a narrow view of reciprocity as a future principle of American trade policy, but even here there appears to be growing support for a policy of mutual and equal access to the market at least in some sectors. Should this trend continue in the United States it would, however, end up by removing the basis for the multilateral trading system.

14. The imposition of import restrictions and the acceptance of requests for protection in various sectors such as steel, footwear, textiles, wine, machine tools and copper have given rise to justified fears that the Reagan administration will not be capable of adequately resisting protectionist pressures during an election year. As these measures have already affected US \$4,700 million-worth of EEC exports to the USA, the Council felt obliged to issue an official statement expressing its concern at the situation, which was jeopardizing bilateral trade, in February this year.

15. Other problems have emerged recently. More and more individual States (more than a dozen at the moment) are introducing unitary taxation under which they are able, by virtue of their autonomy, to assess foreign subsidiaries for tax on the basis of part of the parent concern's international income. The Commission has made representations to the American authorities against this practice since 1980. Investigations by the US Treasury into the effects of unitary taxation seem to have cleared a path for a domestic compromise between the States and the Federal authorities taking European interests into account. There is however a number of other problems on which the US Administration's attitude is not clear, for instance the recent idea of a 15% tax to be imposed, as in 1971, on all imported goods. The United States' rapidly increasing trade deficit is obviously causing the Administration and the Congress to consider countermeasures, including drastic action.

## II. TRADE RELATIONS

16. The United States is the Community's most important trading partner, accounting in 1982 for some 15.6% of the Community's total foreign trade (see table A on trade between the Community and the USA). In the latter half of the 70s, the Community was the main customer for American exports followed by Canada, Latin America and Japan and the second largest importer to the USA after Canada (see table B). Throughout the '70s trade between Europe and the

US flourished. The volume of trade between the United States and the Community grew by almost four and a half times between 1970 and 1980 (although US world trade grew by more than five and a half times - see table C). The Community's balance of trade with the United States is, however, permanently and chronically in deficit and in 1980 reached the record level of \$24,600 m (US \$17,700 m according to the US trade representative).

However, the Community deficit has steadily fallen since 1981, and the US surplus dropped from \$13,900 million in 1981 to \$10,700 million in 1982, principally because of the decline in US exports owing to the strength of the dollar. According to American estimates there might even be a return to a US trade deficit with the Community for 1983 as a whole, for the first time in 11 years.

17. Structure of bilateral trade: In the '70s the United States exported more primary products to the Community than it imported from it while the Community exported more semi-finished and finished goods to the USA than it imported from it. The United States' surplus from trade in primary goods was, however, far higher than that achieved by the Community from bilateral trade in semi-finished and finished goods. Moreover, in 1976 and 1981 the USA achieved a slight surplus in this area too; and in 1980 the surplus was considerable, namely US \$3,280 m (see table D). The Community's balance of trade deficits vis-a-vis the USA are mainly due to the large quantity of American agricultural exports (within the primary goods sector). The Community is one of the most important markets for American agricultural products and US exports in this category regularly exceeded American imports from the Community in the '70s by four to five times despite the constant claims of agricultural protectionism on the part of the Community (see table E).

In bilateral trade in industrial products, the American position during the '70s was virtually always in deficit in relation to steel production, road vehicles (goods vehicles and passenger vehicles), textiles and clothing. The USA achieved regular surpluses from trade in chemical products, computers and aircraft, which particularly as regards the latter two areas indicates a certain dependence on the part of the Community on the transfer of sophisticated technology from the USA (see table F).

18. Foreign trade dependence: Foreign trade dependence can be illustrated, for example, by comparing trade to gross national product (GNP). This illustrates the extent to which an economic area is dependent on the

international trade system or is in a position of relative autonomy. Both economic areas, the Community and the United States, have increased their dependence on exports and imports from the world market. The rate of growth has, however, been higher for the USA than for the Community. Between 1970 and 1980, the United States' dependence on world trade doubled: the US export rate (total exports/GNP) rose from 4.3% in 1970 to 8.2% in 1980; the import rate rose over this period from 4.3 to 9.2%. Although the United States' foreign trade dependence has increased overall at a faster rate than that of the Community so that the relative autonomy of the United States has declined with growing international involvement, the Community is still far more involved in, and thus dependent on, foreign trade than the United States: the Community's export rate in 1979, for example, was 11.2%, compared with only 7.5% for the United States. In the same year the Community's import rate was 12.7%, whereas for the USA it was 9.1%<sup>3</sup>.

19. Interdependence: The importance of bilateral trade and interdependence which results can be seen by comparing, for example, the volume of trade of the United States with the Community in relation to their respective GNP.

	1960	1970	1975	1979	1980
US-EC trade/GNP (USA)	1.8	2.1	2.6	3.1	3.4
US-EC trade/GNP (EC)	3.4	3.3	2.9	3.2	-

Source: see table G

Whereas in 1960 the dependence of the Community on the United States was far greater than vice versa (virtually twice as high) this relationship became balanced by the end of the '70s. The figures above show an increasing trend for the United States and a slight decline for the Community. While the importance of bilateral trade has increased for the United States over the last 20 years, it has declined for the Community. Overall the relative importance of bilateral trade has become more balanced. The relationship is more symmetrical now than 20 years ago and has shifted to the advantage of the Community.<sup>4</sup>

20. If we turn from considerations of GNP and compare bilateral trade to overall foreign trade we obtain the following picture: in 1982 the Community obtained 17.4% of its total imports from the United States and exports from Europe accounted for 17% of total US imports. In the same year the Community exported 13.8% of its total exports to the United States and the Community accounted for 23% of total US exports<sup>5</sup>. Whereas, therefore, the

proportions are roughly equivalent in the case of bilateral imports, i.e. bilateral imports have roughly the same importance for overall foreign trade for the Community as for the United States, the Community is far more important as a sales market for the USA: American exports to the Community as a proportion of total US exports are more than one and a half times as high as the corresponding proportion of Community exports.

21. Summary: The lack of balance in reciprocal trade dependence has evened out to the benefit of the Community. Both parties are roughly equally dependent on each other now (with a rising trend in the case of the USA). This would imply that the United States has lost influence and importance in trade with the Community. Despite the increase in its ratio to GNP in the case of the USA, transatlantic trade is nowadays not as important for either region as it was in the '60s and early '70s. Other regions have become more important both for the USA and for the Community. The potential for trade conflicts has therefore grown. Seen as part of total foreign trade, however, bilateral exports are more important for the US than for the Community, whereas differences in the import sector are relatively small. The conclusion from this account of transatlantic trade relations is that the cost to the Community of conflicts resulting in restrictions, reductions or even disruptions of trade relations would be far less nowadays than 10 or 20 years ago. Disruptions of trade would, however, still represent a serious blow to the Community as its dependence on foreign trade as a whole is far higher than that of the United States. Conversely the interests of the United States would hardly be served by protracted trade conflicts given the importance of the Community as an export market for American goods. This mutual interdependence therefore makes it necessary for both parties to cooperate to find solutions to any conflicts which may arise in bilateral or international trade.

### III. CAPITAL RELATIONS

22. An analysis of the flow of goods between the Community and the United States only provides a limited picture of economic interdependence. The picture becomes clearer if one considers capital relations in the business sector, i.e., direct investment, which may be regarded as a substitute for free trade. For example, the total value of sales by the subsidiary companies of US manufacturers located in the Community amounted in 1976 to US\$ 171,500 m. This was six-and-a-half times as high as the value of American

exports to the Community in that year (US exports to the Community in 1976 = US\$ 25,400 m ) and eight-and-a-half to nine times as high as the value of non-agricultural US exports. <sup>6</sup>

### 23. Concentration of US direct investment in the Community:

Direct investment by the United States and the Community constitutes the bulk of all foreign direct investment throughout the world. Capital exporters from both economic areas each represent the leading foreign direct investors in each other's respective region, i.e., the Americans' account for the largest proportion of foreign direct investment in the Community and the Europeans occupy the same position among foreign investors in the USA. A striking aspect of the trend in American direct investment abroad is its increasing concentration in the Community. Since its foundation the Community has been one of the parts of the world in which American direct investments have grown most rapidly. Whereas in 1958 Europe accounted for only 7 % of total American direct investment abroad, this had grown by 1978 to 32.8 % and in 1980 totalled 35.9 % (see table H). The explanation for this development may be seen both in the prosperous and large market which offers an incentive to build or acquire manufacturing capacity directly in Europe and in the entry into the Community of Britain which was one of the countries favoured for American foreign investment.

24. Bilateral capital relations: In the sixties the fear emerged in Europe of a sell-out of European industry to extensive direct American control because American corporations have considerable influence on European production and own large proportions of certain sectors. This fear diminished however in the 70's. The commitment of European capital in the USA increased not least because of the more realistic value of the dollar. In 1975 a total Western European direct investment of US\$ 16,500 m was more than two-and-a-half times as high as the 1965 figure of US\$ 6,100 m (1960 US\$ 4,600 m); at the end of 1980 the value of direct investment by Community countries in the USA totalled US\$ 37,800m (7). This reversal of the trend, known as the 'European revenge', by no means restored balance to reciprocal capital relations between the Community and the United States, and certainly did not reverse the overall position. In 1980 American direct investment in the Community of US 76.6m was still twice as high as the value of European investments in the USA.

25. Advantages and disadvantages of direct investment: Certain advantages and disadvantages need to be taken into account when considering the dependence or interdependence involved in direct investment. On the one hand there is a danger, according to the level of the commitment of foreign investment, of possible foreign control of national capital assets, or at least the danger of dependence of individual sectors and regions on foreign investment policy. On the other hand foreign companies and subsidiaries are subject to the laws of the economic zone in which they are located and in these areas play their part in manufacturing and employment as part of the prevailing economic and trade policy. The conflicts surrounding the US embargo policy has shown however that the US Government is seeking to extend its national trade policy to US subsidiaries and licensees abroad.

26. Public control: There is clearly a greater need for information and monitoring of the activities of multinational companies on both sides of the Atlantic as shown by the Vredeling directive and the American Interagency Committee on Foreign Investment. In addition to the reasons given above there are the strategic market advantages associated with the organization of these companies which quite often lead to distortions of competition. Freedom of action in the transfer of goods and capital confers advantages, in particular to American corporations in the Community, inasmuch as they are able - until such time as there is European unity - to exploit specific features of the individual European countries (taxation, economic laws, demand patterns) for their market strategies.

27. Summary: The one-sidedness of the dependence in Euro-American capital relationships has shifted slightly in favour of Community. A great deal of the capital outflow from the Community in the 70's was absorbed by the United States. Despite this reversal of the trend, there remains a clear dominance of the United States in the Euro-American relationship as regards direct investment. It would therefore be mistaken - although the degree of imbalance in transatlantic capital relations and in the sphere of bilateral trade has declined - to see the position of the United States as weak or on the defensive.

#### IV. AREAS OF EUROPEAN-AMERICAN CONFLICT

##### THE STEEL SECTOR

28. Relations have been strained in the steel sector for a number of years now. As the US balance of steel trade is in deficit and the Community succeeded in expanding its share of the US market in the 70's, the interests of American industry lie primarily in protection against European and Japanese competition (and competition from newly industrialized countries).

29. During recent years it proved possible to bring a number of the anti-subsidy and anti-dumping suits, which were chiefly directed at steel imports from the Community, to an end only after the Western European trading partners had made concessions. Thus towards the end of 1980 the trigger price mechanism was reintroduced at a higher level, and after protracted negotiations the Member States of the Community agreed on 21 October 1982 to a self-restraint agreement that reduced the European share of the American steel market in ten ordinary steel products from an average 6.3 to 5.756 %. This represents a 'voluntary' reduction of Community steel exports to the USA of 8 %. The agreement runs from 1 November 1982 to 31 December 1985<sup>8</sup>.

30. Assessment: Steel subsidies within the Community range up to 30 % in France and 40 % in the United Kingdom. Although these subsidies do not have a direct bearing on exports, they nevertheless influence the European steel exporters' price margins on third markets. It was therefore hardly to be expected that the countervailing and anti-dumping duties imposed by the US would be abolished or even considerably reduced despite vociferous European protests. Nor could further disruptions of the market as a result of fresh suits filed by US steel manufacturers be ruled out. As the American market is the major export market for the Community steel industry, it was necessary to take steps to maintain and protect it.

The agreement was to provide clear-cut arrangements for regulating trade in the carbon steel for over three years, thus preventing disruptions until the European steel industry has concluded its projected rationalization and restructuring.



31. Although the Carbon Steel Arrangement of 21 October 1982 has so far worked to the satisfaction of both sides, the suit filed by Bethlehem Steel Corporation in late January this year against foreign steel imports has given rise to great concern in the Community. Bethlehem is one of the 15 producers which, when the carbon steel arrangement was signed, undertook to drop all dumping suits against the Community and not to apply for any additional duties for the duration of the arrangement.

Legally, the International Trade Commission (ITC) has over 90 days to examine the complaint, and neither its recommendation to the President nor his decision can be predicted. However it is clearly in the interests of the US steel industry and Administration to uphold the steel arrangement. The Administration (Department of Commerce) takes the view that the Bethlehem suit is an isolated case, not likely to be followed by the other producers and, anyway, is directed not against the European steel exporters but against cheap suppliers in Korea and Brazil for example. If this suit did nevertheless lead to measures infringing the steel arrangement, the Commission has made it known that it would consider unilaterally terminating the arrangement.

32. Special steel In July 1983, after a number of anti-dumping and anti-subsidy suits against imports of certain steel products, the US authorities introduced special tariffs of 8-10% and import quotas, for a four-year period on a degressive basis, on various foreign special steels in order to protect American industry. While some of the supplying countries concerned (including Sweden, Japan, Canada, Austria and Spain) responded to the new barriers to trade by complying with American offers of 'voluntary' restraint agreements, the Community refused on grounds of principle and policy to adopt this course. The Community doubted whether these restrictions were in conformity with the GATT and called on the USA for adequate compensation. As several rounds of negotiations under the aegis of the GATT failed to

produce agreement because of the inadequacy of the American offers of compensation, the Community decided, after considerably lengthening the deadlines normal under the GATT, to take compensatory countermeasures.

33. Retaliation by the Community: On 15 January the Commission notified the GATT in Geneva of a list of retaliatory measures on imports from the USA, to take effect after a further 45-day negotiating deadline on 1 March. The retaliation takes similar form to the US measures, and comprises increased duties and quantitative restrictions on imports of chemical products (man-made fibres and petrochemical products), sports equipment (rifles, guns and skis) and burglar alarms, anti-theft devices and fire alarms. The American side has never questioned the Community's right to retaliate, but rather expected it after the fruitless rounds of consultation. The US Administration has nevertheless protested against the Community's action. A compromise has emerged with agreement on the exchange rate relationships (current exchange rates), and the USA agreeing that compensation be calculated on the basis of EEC import rather than US export statistics. As the US products concerned are very price-sensitive, the Community has agreed to periodic reviews so that the measures do not have more than the originally planned effect.

34. Structural crisis in the steel industry. The main reason for the persistent disputes with the United States on steel, notwithstanding the very high subsidies for steel production in some Community countries, is the crisis in the steel industry on both sides of the Atlantic. The US steel industry in particular, with exceedingly low production capacity utilization and over 30 % unemployment, is fighting for its life. But in the Community too, 247,000 jobs in the steel industry were lost between 1974 and 1981.

35. Although the acute disputes on carbon and special steels have so far been defused, it still remains to be seen how the problem of the structural crisis in the steel sector can be solved. There is enormous surplus capacity on both sides of the Atlantic. Both steel industries are receiving subsidies. The danger that these subsidies will simply serve to maintain obsolete structures is however considerable on past form. One important aim must therefore be to use the period of comparative quiet on the steel front effectively to adapt and modernize plant. If this is not done the problems are likely to recur even more seriously in a few years.

36. The Commission has a plan for rationalizing the European steel industry by 1985/86 essentially based on a quota and target price system with a gradual reduction in surplus capacity. Whether this can be implemented on schedule, however, is open to question given the understandably divergent interests of different parts of the industry. If the Community does not succeed in carrying out the necessary adjustments, however, there is the long-term danger that exports of ordinary steel to the world market and possibly to the American market too will no longer be possible even at the present limited level.

37. Conclusions: the course of past steel conflicts with the United States has demonstrated the need for common action and a joint approach by the EEC institutions if there are to be successful negotiations with the USA on the basis of the EEC and the ECSC Treaties, with results that can be implemented internally. Despite the success in settling the worst disputes, new conflicts over steel may still emerge between the EEC and the USA.

However, the problems of the US steel industry cannot be solved at the expense of the already small share of the market held by the European steel exporters. The outcome of the negotiations on carbon steel and the measures in retaliation to the barriers to European special steel exports must therefore be welcomed, and the Commission should again be given unreserved support in its negotiations in future conflicts. The Commission's approach of avoiding escalation where possible, but using the GATT rules to show its American opposite numbers that there are clear limits to goodwill, must also be endorsed. The rapporteur believes that there will have to be negotiations under the GATT on maximum permissible limits to government subsidies and how they are defined, to attack one of the principal causes of trade disputes with the present world over-capacity.

#### AGRICULTURAL SECTOR

38. The Community is the largest importer of agricultural produce in the world and the largest customer for American agricultural products. Although there was general acceptance of Community agricultural policy by the signatory states after the conclusion of the Tokyo round of GATT (1973-1979), American pressure on the CAP has been growing over the last few years.<sup>9</sup> It is claimed that:

1. The Community is making access to the common market more difficult for American agricultural exports by its protectionist tendencies, and its Mediterranean and enlargement policies are a threat to American exports of citrus fruits and vegetable oils to Europe.

2. The Community has unfairly expanded its share of the world market at the expense of US exports by subsidized exports.

39. Stage reached in talks on agriculture between the EEC and the USA: there were several rounds of high-level talks between the Community and the United States in 1983 on differences over trade in agricultural products.

In late June 1983 they agreed to set up a joint expert working party to work in regular dialogue to clear up problems over definitions of farm subsidies by the end of 1983 and to help reduce political tension over agricultural trade policies. Its terms of reference include establishing a basis for joint rules on the trade in agricultural products to comply with the GATT. One object of these bilateral preliminary clarifications is to ease the work of the GATT agriculture committee.

40. The American export drive: From the beginning the agricultural talks were however overshadowed by the US export drive in traditional Community markets in the Mediterranean area. In January 1983 the USA concluded a contract to supply Egypt, traditionally a major customer for European wheat and wheat flour, with over 1 million tonnes of wheat flour at a price up to US\$ 30 per tonne below the world market price. In August 1983 there was another subsidized transaction in which the USA sold Egypt 18,000 tonnes of butter and 10,000 tonnes of cheese. Such 'shots across the bows' clearly serve the Americans' interest in persuading the Community to restrict its agricultural subsidies so that its farmers' earnings are, like the American farmers', more subject to the fluctuations of the world market. The Commission has launched a protest against these export practices with the International Dairy Council and notified the GATT that it is asking for compensation for the sales to Egypt. In October 1983 400,000 tonnes of French wheat flour were sold to Egypt. The Community granted extra amounts on top of the normal export refunds to win back part of the Egyptian market. The US mills cannot understand why the sales to Egypt should not be repeated. They are therefore expecting a follow-up contract. However, members of the US

Congress and Administration regard it as impossible on grounds of costs alone to conduct a prolonged price war between the US and the EEC in specific markets. There is therefore an interest on both sides of the Atlantic to promote an escalating farm exports war.

41. The world market position of the Community: The United States is noticeably feeling threatened by European competition in its agricultural export policy. And indeed over the last few years the Community has become one of the leading exporters of dairy and egg products, poultry and wheat. It has overtaken the traditional exporters of beef, Argentina and Australia, and in the case of sugar is in second place behind Cuba. The United States on the other hand exports relatively little butter, sugar, milk or beef. But it has a dominant position on the world market for soya beans, maize and cereals.

42. The expansion of the European share of the world market is clearly the result of a common agricultural policy with sales guarantees and support prices which leads to surplus and pressure to export.

In the past it has been very difficult to prove how much the Community's export subsidies have cost the US on world markets, and last year a GATT panel which at the request of the USA, examined the Community's wheat flour exports to 17 markets for allegedly unfair export practices was unable to prove that the EEC had offered lower prices or obtained a disproportionate market share by granting export refunds. It should also be said, in reply to the American accusations, that farming in the USA itself is not untainted by official interference and subsidies. Subsidies in the USA as a proportion of GDP are about the same as in the Community, and even higher per capita of those working on the land.

43. The crisis in American farming: One major reason for the conflict between the United States and the Community is not so much the Community's agricultural policy as the crisis in US farming. Record harvests in the USA, the rise of cereal production abroad, the fall in demand due to the worldwide recession, the high value of the dollar and not least the effects of the cereal embargo have led to a drop in farm earnings and a decline in US exports. Farmers in the US are therefore calling on the Federal Government for more support measures and for enhanced export aids and measures against European competition on third markets and on the domestic market.

44. Wine: the Wine Equity Act of 1983 provides an example of the efforts of the farm lobby. It is now before the US Congress and its aim is to establish reciprocity in trade in wine. Not only does this bill contravene the international trade rules of the GATT, it threatens the Community's wine exports to the USA, which are the largest individual item in the Community's agricultural exports to that market, amounting to \$668 million in 1982. So far the Commission has protested against the bill and expressed its hope that the US Administration will resist the Californian wine lobby.

45. After the first votes in the Congress it looks as if the bill might get a majority. The representatives of soya and maize gluten interests are now opposing it, as they fear that its adoption could produce direct EEC restrictions on feedstuff substitutes and vegetable oils and fats, one of the objectives of Community reform policy. This fear is the mirror image of the endeavours of some US farm lobbyists, independently of the motives of Community reformers policies, to reply to EEC attempts to stabilize feedstuff imports by retaliatory measures against European wine imports. At the moment the Wine Equity Bill could still become law, but its opponents are gaining strength.

Dumping suits were filed against European wine imports a few weeks ago on the basis of complaints by Californian wine growers represented by the American Grape Growers Alliance. About \$300 million worth of French and Italian table wines could have been affected by possible anti-dumping measures. The US growers' main argument was that European table wine exports were being inadmissibly subsidised. The ITC has however turned down the complaints for lack of proof of damage to US wine producers. It should however be pointed out that the Community does no promoting of wine exports and that national structural aid within the Community is calculated to avoid distortions of competition.

46. The US wine industry's sales problems should be blamed less on European competition than on the huge rise in US wine production and the strength of the dollar in recent years, which has helped imports and hampered exports. Even if American wines could reach the common market with lower compensatory levies, at their price level their chances of competing would not be improved. Moreover, US wines are made by processes which do not conform with European regulations. In order to accommodate the American growers and, in particular, to anticipate demands for reciprocity as contained in the Wine

Equity Act, in July 1983 the Commission sought an agreement in letter form with the US Government on the assimilation of the different regulations and considered facilitating access of American wines to the European market. The US Administration (trade representative Brock) which opposed the Wine Equity Act from the beginning, would then have something to show the Congress. Since then the Administration has held back for electoral reasons, and the Commission has temporarily frozen offers of this nature, probably as a result.

47. US criticism of Community reform policy: as instructed by the Stuttgart European Council, the Commission submitted a list of reforms on 1 August 1983, for the most part combining internal adaptation to reduce costs (quotas, price thresholds, phasing out of subsidies) with a stabilization of agricultural imports in sensitive areas (feedingstuff substitutes etc.)<sup>11</sup> Some of these proposals were misinterpreted as attacks on the American farmer as the most affected Community supplier. For the objects of the package of reforms, to reduce the volume of production, to encourage European farmers to share the responsibility for surpluses and to close the gap between EEC and world market prices, are in fact in the interest of US agriculture. American warnings of a trade war if these adaptations are carried out, and if US export interests are affected, are unjustified for the following reasons:

48. Feedingstuff substitutes: the Community's imports of maize gluten alone have risen from 700,000 to 3 million tonnes over the last ten years. Cheap feedingstuff substitutes like maize gluten and citrus pellets have largely replaced dearer Community-produced feedingstuffs, and in turn stimulated the rise in cereals and dairy surpluses which the Community could dispose of only on the world market. Guarantee thresholds for cereals and stabilization of feedingstuff substitute imports are not intended to damage US exports, but to stimulate consumption of homegrown cereal products and to reduce Community surpluses, which would reduce supply to the world market. Despite the widely-held view to the contrary in the USA, there is no intention of imposing a ban on or reduction of imports of grain substitutes, but rather of stabilizing traditional patterns of trade in conformity with the rules of the GATT (Articles 11, 19 and 28). As the Community has made special agreements with the United States under the GATT concerning the import of feedingstuffs, stabilization measures to be proposed by the Commission would not be adopted without negotiations with the USA over possible compensation from the Community.

49. Tax on oils and fats: the Commission's proposal to introduce a tax on oils and fats to reduce the butter mountain is being misinterpreted in the USA as an attempt by the Community to abolish the duty-free import of soya beans, soya flour and other oil seeds, the value of which was around \$4,000 million in 1982. The proposed tax on consumption would be levied on all oils and fats consumed in Europe, other than butter, irrespective of whether they are produced in the Community or imported. This proposal therefore does not discriminate between imported and domestic production, and would be in conformity with international trade rules. Whether the introduction of such a tax would hit soya imports at all is an open question. One reason for this assumption is the fact that most of the Community's soya bean imports are used for animal feed rather than oil production.

50. Distribution of the cost of CAP reform: it is widely held in the USA that the CAP needs to be reformed, but there is no reason why the USA and its farm exports should pay for it. This is to ignore the fact that the main burden of the adjustments that have been proposed would fall on the European farmer. If the Community does demand greater discipline from its own farmers, then fair regulation of the market requires that agricultural imports are not exempted. This also coincides with the views of most European farmers' associations, which are calling for the inclusion of certain imports (e.g. cereal substitutes) in the common market organization system.

51. Effects of CAP reform on external relations there will undoubtedly be. The Community, before deciding on specific action, should therefore give careful consideration to its trading partners' possible reactions. This is especially true of the United States, where countermeasures are being threatened to the introduction of the tax on oils and fats and the planned stabilization of feedingstuffs and soya imports is being taken as a declaration of war.

As American farming is heavily dependent on exports and an extremely sensitive part of the American domestic political system, in an election year we can expect to see the US Administration prepared to use every means at its disposal to further American interests. It is therefore essential to keep American eyes firmly fixed on the link between the need for internal adaptations while stabilizing imports, and the relief this will bring to international markets.



52. This is a particularly unfortunate time for agricultural problems between the Community and the USA. The Community is about to embark on a period of reform, and the US as we know is in the middle of an election year. As the farm vote is very important in the presidential election, the waves might be bigger than usual at certain points of conflict. The Community should bear this in mind. On the other hand there is no reason to give the US the power of veto over reforms intended to adapt the Community's 20 year old agricultural policy to changed financial and external circumstances. It is therefore not a question of whether the Community should adopt individual reforms or not as part of an overall concept, but how to prepare for their introduction by conducting an intensive dialogue with the trading partners affected.

53. Conclusions: the Community should continue its efforts to arrive at solutions acceptable to both sides concerning trade in agricultural products. In addition to bilateral talks at expert level there is the possibility of cooperation in the newly created GATT agricultural committee. Arrangements with the USA should be sought under the GATT taking both parties' legitimate interests in world markets into account, and to help stabilize world trade in agricultural products. As the production of surpluses also represents a major problem in the USA, efforts should be made in the interest of both sides towards parallel reductions in subsidies.

#### V. EAST-WEST ECONOMIC RELATIONS

54. In 1982 the difference of opinion between Western Europe and the USA in relation to trade with the Eastern Bloc flared up and, in conjunction with the steel dispute, tested transatlantic relations to the utmost. On 18 June 1982 because of the Polish crisis President Reagan tightened the sanctions against the Soviet Union and extended the embargo on the supply of pipeline equipment to US subsidiaries and licensees in Europe. This represented an inadmissible extraterritorial extension of American law and an attempt to break existing agreements. In two notes of protest, the Community drew attention to these legal aspects and called on the US authorities to withdraw the measures they had imposed<sup>12</sup>.

55. Raising of the pipeline embargo: The attitude of the US administration only changed when they found they were unable to enforce their will on the Europeans. The European firms concerned began to fulfil their contractual obligations to the Soviets despite American threats of fines and a ban on the sale of sophisticated US technology. They not only received wide support from other businesses, trade unions and Community institutions but often were given clear instructions to do so by their governments. President Reagan increasingly found himself confronted by domestic difficulties as a result of the damage caused to the alliance and the economy by his sanctions (for example the US Caterpillar Corporation alone had to make 8,000 workers redundant because of being excluded from the pipeline deal), and abandoned the sanctions against the construction of the gas pipeline on 13 November 1982. The ending of the pipeline dispute clearly showed that by sticking together the European States had managed to defend their interests even against massive American resistance, and this also had to be accounted a success for the Community.

56. Energy supplies: The Community has devoted a great deal of attention to the repeated American argument that Western Europe risks becoming dependent on Russian energy supplies. In three comprehensive communications to the Council on the security of the Community's gas supplies<sup>13</sup> the Commission pointed out that even today a loss of 25% of our supplies for a period of six months could be covered without noticeable effect on final consumption. It also recommended increased prospecting for domestic reserves for extreme circumstances, aid for the development of synthetic natural gas and further diversification of foreign sources of supply. In its memorandum of 12 August 1982 to the US Government the Community also stated that Soviet gas supplies at their peak would not exceed 4% of the Community's total energy consumption. This is scarcely a level of dependence threatening security or providing scope for political blackmail.

57. Credit policy: The limitation or restriction of the volume of loans to Eastern Bloc countries favoured by the United States is unlikely to be considered in the medium term. The problem of indebtedness among Comecon States has already led to a far more restrained and cautious credit policy and any further restrictions would represent an unnecessary burden on trade with the East which is already stagnating. The Community has already acceded to the American wish for higher interest rates on loans to the Eastern Bloc.

On 30 June 1982, the Council of Economic and Financial Ministers accepted OECD proposals that the USSR, Czechoslovakia, the GDR (and Israel) should be included in Group I of prosperous industrial countries with a per capita GNP of over 4,000 dollars. The Socialist countries concerned thus had to accept a dual rise in interest rates: firstly as a result of their higher classification and secondly a general increase in interest rates (for example in the case of loans with a 2 to 5 year term by 1.15 to 12.15%).<sup>14</sup>

Since then the transatlantic differences over the rate of interest, term and amount of subsidy in loans to Eastern Bloc countries have practically been settled. The Autumn 1983 new OECD consensus on export credits (Wallen proposal), reached after considerable wrangling within the EEC, provides for automatic adjustment of minimum interest rates to market trends and largely avoids a credit war.

58. Export control policy: there is general recognition among western countries that export controls under the aegis of CoCom are necessary on security grounds and that the lists of prohibited exports have to be updated from time to time. The Western European countries have however resisted stricter controls on products which also have civil uses (semi-conductors, microprocessors, glass fibre cable, computers, etc.) and any extension of CoCom's powers. If it were made more difficult to export products with electronic components, EEC Member States' exports to Eastern Bloc countries of semi-automatic or numerically controlled machines could be seriously affected.

59. Export Administration Act: independently of the voting procedure in CoCom (consensus!), the US is attempting unilaterally to refine the methods of export control. After prolonged debates the US Senate has now passed a new version of the 1979 Export Administration Act very much on the lines of the amendments proposed by the Administration, and laying down much stricter export controls than did the version approved by the House of Representatives last year. The two Houses have until 31 March this year to agree on a joint text. The version adopted by the Senate provides that foreign firms which violate American export bans on strategically relevant products are in future not only as now to be prevented from acquiring American products but are also to be cut off from the American market. There is however no longer to be retroactive imposition of trade sanctions. In the case of contracts already concluded, there is to be a conditional period of grace of 270 days. The

provision for the US Department of Commerce to withhold export licences until foreign subsidiaries or partners contractually undertake to accept American trade regulations is however maintained. Bearing in mind the pipeline embargo which President Reagan extended to European firms on the basis of the old 1979 Export Administration Act, the Commission and Council have protested on several occasions against the extra-territorial claims of the Act, which are incompatible with international law. The Community made two approaches in 1983, warning of the consequences of this Act, which could involve uncertainty in international trade, reservations over US foreign investment and an increased tendency for European industry to strive for independence of American technology<sup>15</sup>.

60. Export controls on foreign policy grounds: another major problem is that the new act allows export controls for foreign policy as well as security reasons. As this is not covered by Articles 20 and 21 of the GATT, the Community has pointed out to the US Administration that whenever measures with extra-territorial effect are adopted on foreign policy grounds under the Export Administration Act and affect the Community's trade, it reserves the right to make full use of the GATT. The Community would if possible prefer to avoid disputes over export control policy, but the text of the act as adopted by the Senate gives rise to the danger that US control measures involving extra-territorial claims could in future lead to political difficulties in transatlantic relations, and could be economically harmful.

61. US technological domination: In recent years the problem of technology transfers to the Eastern Bloc has been joined by problems over technological cooperation within the western world. The US is clearly anxious to protect its technological lead in key areas against the outside world. This is true even of cooperation projects within NATO. It is therefore becoming more and more difficult to determine whether restrictions on the transfer of advanced technology are intended to increase its lead over the Eastern Bloc alone, or over its western trading partners too. This will make it more difficult to distinguish between purely protective measures to safeguard US domination in advanced technology and measures to prevent the transfer of technology to the Eastern Bloc. On these grounds alone the Community should endeavour to increase its technological independence and, by appropriate aid programmes (particularly for computer and information technology) to increase its ability to compete with the USA and Japan.

62. Conclusions: Given that the CSCE Final Act cited trade relations as one of the guiding principles of East-West cooperation, and the Community wishes to expand these relations (see Community agreement with Rumania, negotiations with Hungary), there is no reason to depart from this policy. The Western Europeans are however bound to coordinate their approach to a certain extent with the United States for reasons of security and the alliance. This does not alter the fact that the differences of opinion on economic relations with the Eastern bloc are inbuilt. The USA sees relations with the Soviet Union primarily from the point of view of the global competition between the superpowers whereas in Europe the emphasis is on regional aspects. America and Europe will have to learn to live with their differences on East-West economic relations. Both on economic and political grounds (jobs, diversification of energy supplies, détente), therefore, the Community should maintain its policy on East-West economic relations and point out to the Americans that unilateral measures (Export Administration Act) and pressures represent an unnecessary burden on the alliance and make it harder to find compromises on matters of detail.

#### VI. MONETARY AND INTEREST RATE POLICY

63. For over two years the high level of American interest rates and the rise in the value of the dollar have hindered economic and monetary policy in Europe. At the same time fluctuations in the dollar exchange rate have created uncertainty in international trade and disrupted the foreign exchange markets. High US interest rates have attracted foreign capital, which has recently been helping finance the economic recovery and growth in the USA. In Europe on the other hand there has been a lack of capital for the investment that is required and interest rates have been higher than justified by circumstances within Europe. Interest rates have since fallen from their 1981 peak, but they are still too high in relation to the past, and uncertainty persists concerning trends in the USA. This is largely due to the tensions in the capital markets created by deficits in the US Federal budget. The Americans are beginning to discuss limiting their deficits, but it is unlikely that the necessary tax rises and spending cuts will take place in an election year.

64. European criticism: European criticism in the past has largely focussed on the gearing of the Reagan Administration's economic policy to the domestic market, which has given high priority to regaining price stability while waiving controls on interest rates and encouraging a high dollar exchange rate. At past economic summits the Europeans have tried to obtain undertakings from the Americans on their international role as the leading political power and to encourage them to limit budget deficits and reduce interest rates. The Europeans' main hopes were for US willingness to intervene on the currency markets to iron out fluctuations in the dollar exchange rate and maintain 'orderly market conditions' to relieve the pressure on European currencies. (16)

65. Dangers in the US budget deficit: After the dollar reached record values in January this year, the trend on the currency markets abruptly went into reverse; between February and mid-March, the dollar fell by about 10%. The markets were obviously adapting to the uncertainty over the Reagan Administration's future economic policy in the light of America's huge Federal budget and trade deficits. According to the US Federal Reserve Bank, a capital inflow of \$80,000 million, twice last year's figure, will be required to meet the demand for credit this year. As foreign holders of capital do not seem prepared to finance unlimited US deficits in the long term, if the budget is not cut there is a danger that with capital in greater demand there could be an escalation of interest rates with all its international economic implications.

66. European monetary policy: Given the continuing uncertainty as regards US budgetary and monetary policy, a major question is the extent to which better monetary policy cooperation between the Member States of the Community could counter the dominant role of the US currency in the world economy and enable Europe to contribute to stabilizing the international monetary and financial system. The EMS which has existed since March 1979 is a major step towards achieving economic and monetary union within the Community. In the five years of its existence it has succeeded in stabilizing exchange rate relations between the participating currencies, whereas for example the dollar and the yen have been extremely volatile. Despite seven adjustments to the central rates, it is obvious that the participants valued the role of the EMS. It has provided undeniable discipline towards harmonization of national economic policies. The recent improvement in monetary cooperation has also made it possible to reduce the considerable differences within the Community in

balance of payments deficits and rates of inflation. The Community does however lack an effective instrument of monetary policy in its external relations. There is inadequate coordination of exchange rate policies towards other currencies, and no Community organization, similar to those in the commercial or agricultural field, to play the role due to the Community in the developing system of multiple reserve currencies.

67. Improvements proposed by the Commission: The Commission therefore regards an improvement in the consultation and cooperation machinery between European central banks and those in the US and Japan as necessary to stabilize the Community's external monetary policy and recommends closer coordination between Community central banks in dollar interventions so as to achieve a more coherent approach to the U.S. currency. The Commission is also in the process of drawing up a number of proposals aimed at strengthening the EMS internally and giving it greater capacity to withstand external influences and disruptions. (17) These proposals include both the present scope for extending the European Monetary System and also the prospects for its institutionalization.

68. Conclusions: The most important concept in the Commission proposals referred to above is clearly the creation of a Community institution which would have central powers for monetary policy and the creation of a convertible European currency. If the Community were to extend the function of the ECU in this way and make it available as an international reserve currency and means of payment, it might in the long term succeed in acquiring an influence in the monetary sphere appropriate to its economic and trading power. Total separation from the dollar is however neither desirable nor realistic given the international dominance of American economic power.

For the time being your rapporteur recommends the following: Parliament should support the Commission's initiatives for strengthening cooperation within the EMS and appeal to the Council of Ministers to adopt measures to harmonize the economic policies of the Member States so as to create more favourable conditions for the more stable operation of the EMS. In its external relations, the Community should continue to make every attempt vis-a-vis the other major currencies to achieve effective coordination of interest rate and exchange rate policies. Particularly as regards the USA, the Community should strongly urge limits on US budget deficits, a more active

policy of intervention by the US monetary authorities and a reorganization of the international monetary system. The economic summit this year in London would be a suitable opportunity for this. The EMS machinery might serve as a model for stabilization of the international monetary system.

## VII. WORLD ECONOMIC ASPECTS

### PROBLEMS IN GATT

69. The GATT system was set up in 1947 at the initiative of the USA as a global approach to liberalizing world trade. Combined with the Bretton Woods monetary system it provided for 25 years the basis for prosperity, an increase in affluence and an enormous expansion of world trade. The major rounds of GATT negotiations were the Dillon Round, the Kennedy Round and the Tokyo Round (1973-1979).

70. The importance of the Tokyo Round: At the last of the abovementioned major negotiations, the USA wanted to gain better access to European markets and at the same time international acceptance of the possibility of protective measures for sections of the American economy which were no longer competitive. From this point of view the conclusion of the Tokyo Round was thoroughly satisfactory for the United States. The general adoption of the subsidy and countervailing duties code by the parties to the GATT Treaty sanctioned protectionist measures against artificially cheap imports.

The Community succeeded in gaining what amounted to formal recognition of its agricultural policy and was able to obtain a harmonization of duties at a lower level (according to the Swiss Formula). Moreover in the context of the subsidy code the United States recognized for the first time the criteria of 'material injury' in the context of countervailing or relief measures.

71. Certain problems emerged in implementing the agreements reached in the Tokyo Round principally in relation to different interpretations of the GATT subsidy code and the Community's agricultural policy which led to a number of complaints being lodged by the Community and the United States against each other in GATT. Thus in 1983 there were GATT panel enquiries into pasta, wheat flour and citrus fruits, for example, some of which have not yet been completed. The Community also lodged a complaint against the subsidizing



effect of the American DISC system<sup>18</sup> which is now to be brought into line with GATT by amendments submitted to Congress by the US Government (Foreign Sales Corporation). Even if this happens, the Community will pursue the question of whether the USA is prepared to pay compensation for past tax concessions to help exporters.

72. The GATT ministerial conference in November 1982: The main items under discussion at this first meeting of the parties of GATT for 9 years were the problems created by the Tokyo Round and the issue of a worldwide increase in non-tariff obstacles to trade. The main subjects discussed were trade in agricultural goods, the application of the safeguard clause, the procedure for settling disputes and the inclusion of trade and services in GATT.(19)

73. In the discussion of agriculture the main aspect was criticism by the United States and other countries of the Community's practice of subsidizing exports and its protectionist tendencies in the agricultural sector. The Community's concern was to avoid a general round of negotiations on agricultural matters and to support the creation of an agricultural committee within GATT. This newly-established committee now intends to conclude its survey of national notifications of barriers to trade and export subsidies and to draw up proposals for solutions to be submitted to the annual meeting of GATT in November this year for decision.

74. In relation to the safeguard clause (Article 19 GATT) it was not possible as the USA and other parties to the Treaty wished to improve the criteria for applying protective measures 'erga omnes'. And the Community failed before as it had already done on previous attempts at GATT, to achieve selective use of the safeguard clause with stricter guidelines. Presumably therefore the practice of bilateral 'self-restraint agreements' will remain an area of ambiguity.

75. Various proposals for reforming the arbitration procedure and rules for settling disputes (in which principally the USA and Canada are interested) were discussed. Disputes which cannot be settled between the two parties are normally referred to courts of arbitration set up by the GATT Council which passes on the results of their investigations to the Council. Whereas some countries wish to give the GATT Council the status of a court with powers of sanction, the Community does not favour all too frequent use of arbitration tribunals and advocated maintaining the principle of consensus.

76. The main topic in relation to services was the call from the USA to abolish obstacles to trade in services. Trade in 'invisibles', in which the US leads, already represents roughly a third of world trade. The Community favoured studies on the scope for extending GATT provisions in this direction.

77. Outcome of the GATT Conference: in view of the stagnation in international trade and the increasing trend towards protectionism, the GATT Conference took place in an unfavourable climate. The negotiations for a final policy declaration acknowledging the principles of free trade were therefore difficult. In the end a final communiqué was adopted including a political declaration on restricting protectionism, strengthening the GATT system and a work programme for the 80s involving procedures and studies<sup>20</sup>.

78. New GATT Round: the US has recently been displaying interest in setting up a new GATT Round for the late 80s or early 90s, the objective of which would be, by a kind of roll-back strategy, to achieve something more like free and fair trade, and to resolve a number of outstanding sectoral problems in steel, textiles and, in particular, agriculture. The US believes that one of GATT's greatest failures has been the absence in the past of multilateral negotiations on major aspects of international economic relations and related problems, viz. the inadequate liberalization of trade in services and advanced technology and the barriers to foreign investment. Representatives of the US Administration take the view that it would be easier to find a solution to the problem of the indebtedness of the developing countries, which is an impediment to world trade, if the markets in those countries were open to capital from the industrialized countries. The same could be said of the trade in services and the transfer of advanced technology, which are different in nature from the trade in steel or agricultural products.

79. Position of the Community: A new round of multilateral GATT negotiations would be in the Community's interest, but it insists that the agreements under the Tokyo Round are fully implemented. The Community therefore took steps to have the tariff reductions decided under the Tokyo Round brought forward, a move welcomed by the US<sup>21</sup>. After initial doubts about the US proposal for talks on the scope for liberalizing the trade in services, the Community's interest in this topic has grown, as a result of research by the Commission.

The Community still sees a number of problems over the other topics proposed, such as advanced technology, the trade in agricultural products, and foreign investment, especially as regards the willingness of the developing countries to negotiate. The Commission believes that a new GATT round could begin no earlier than 1986, and then only if there is a jointly drawn up work programme adequately defining the objectives of the negotiations, and if the less-developed countries are prepared to take part.

80. Conclusions: given the existing problems in international trade and the obvious lacunae in the GATT rules, we recommend the following:

a. The present GATT system represents a liberal system of world trade with protectionist exceptions. The large number of exceptions makes it necessary to define stricter guidelines in respect of non-tariff obstacles to trade to stem protectionist 'proliferation' and make it subject to internationally binding criteria.

b. Clearly the causes of trade conflict need to be tackled as a matter of urgency, in view of the need for the industrialized countries to modernize and rationalize a whole range of their industries which are clearly no longer competitive. Agreement should therefore be reached under GATT to allow a limited period of grace for the progressive and coordinated removal of subsidies and other forms of support to enable these problem industries subsequently to resume their place in free international trade.

c. The Community should closely examine the US proposals for a new GATT round, which might indeed make it possible to strengthen GATT and adapt it to changed international circumstances. This would benefit all parties as, despite all difficulties, GATT has on the whole proved valuable in liberalizing international trade and settling disputes over trade. However, the Community should insist that the Tokyo Round be fully implemented before a new major round of negotiations begins.

## VIII. TRADE AND DEVELOPMENT

81. The following section considers not so much the fundamental aspects of the North-South conflict as the position of the Community and the United States in relation to certain areas of development policy. Cooperation to date between the Community, its Member States and the USA and international bodies and organizations has revealed considerable differences in some areas of trade and development policy, which make it difficult to find cooperative solutions to the urgent problems which exist.

82. The position of the United States: Some years ago, the USA lost interest in efforts to establish a 'global dialogue' and a 'new world economic order' to balance the interests of poor and rich countries. The Reagan administration's budget policy which is seeking to reduce taxation not only cut social programmes but also development aid. So far the US Government has followed an extremely restrictive course in relation to the financial endowment of international organizations such as the IMF or IDA. It is seeking to freeze or reduce their funds and impose more discipline on them. In the view of the Reagan Government measures to liberalize trade and capital transfer represent a better form of development aid than 'exaggerated' lending programmes by multilateral organizations. As state development aid is highly unpopular at present in the US, unlike in Europe, the American attitude is to transfer the emphasis on development policy from the public to the private sector and the principles of profitability<sup>22</sup>. In doing so the US clearly hopes to exploit the debt crisis to force the developing countries to stop discriminating against foreign investment. There is a general trend in American development policy away from the multinational bodies and towards bilateral policies. The consequences of this are to torpedo the post-war efforts of the United Nations and to establish close economic, political and military links between the Third World countries concerned and the United States.

83. The Community's programme: The Community as a whole is pursuing a policy of contractual trade and cooperation agreements granting preferences to developing countries and geared to creating social and economic stability in the Third World. The Community favours larger allocations of sums to international lending institutions (such as the IMF) to overcome the enormous

financing problems of the Third World, and in its development policy memorandum (which is the subject of controversy within the Community) the Commission proposes among other things increasing development aid and extending EIB loans to Third World countries<sup>23</sup>.

The Community is the most important trading partner of the Third World and interested in stabilizing export earnings and action to combat hunger in the Third World. Unlike the superpowers, it is not interested in involving the Third World in the East-West conflict but far more in promoting a more autonomous political and economic development. The Community is pursuing a multipolar programme of world trade and development which brings it into conflict with American policy interests in Central and South America in particular.

84. The situation of the developing countries: In addition to their own errors with over-ambitious industrialization products, in the past it has largely been external factors such as lower export earnings (because of the fall in prices of raw materials), high oil prices, high rates of interest and massive exchange rate fluctuations which have seriously damaged the economies of the developing countries. In 1981 the overall debt of developing countries was 630,000 million dollars with over half of this consisting of loans from commercial banks. Debt servicing costs in the Third World have risen so sharply as a result of high interest rates that even the more prosperous developing countries have had to restrict imports. This has led to a fall in international demand and affected the industrialized nations in turn. But, if the developing countries have no recourse other than curbing imports, there is a danger that the economies of the Third World will be cut off from the industrialized countries.

85. Interest rates and currencies: For this reason the Community has repeatedly pointed out over the last two years the need to stabilize the dollar at a low rate by an appropriate intervention policy on the part of the US monetary authorities and to reduce American interest rates. Only lower interest rates would relieve the debt servicing costs of the developing countries and reduce balance of payments deficits and the need to borrow. As the US budget deficits are one of the main causes of the high real interest levels, the Third World, with most of its debts denominated in dollars, has seen its payments problems exacerbated. The US budget deficit is therefore one of the

greatest individual threats to the world economy, with its serious implications for interest rates, exchange rates and world trade. Export earnings are the only long-term solution for the debtor countries, but in the short term even small changes in dollar interest rates above could make all the difference. For example a 1% drop in interest rates alone could save Brazil and Mexico US\$ 700 million each on servicing their debts per year. However the recent fall in the dollar and upward pressure on interest rates foreshadow change in the international markets, making it possible that interest rates might rise further, if the US budget and the inflow of foreign capital into the US remain unchecked. Higher dollar interest rates would jeopardize many rationalization programmes supervised by the IMF and bring the international debt crisis, which had only just been brought under some measure of control, back to the boil.

86. IMF endowment: The Community advocates topping up international credit facilities, particularly the IMF. The US has however reconsidered its past general support for the IMF and demanded that, with its policy of long-term loans, the fund should not be converted into a development agency, but act within its terms of reference and give support only in the event of short-term balance of payments crises. The United States therefore for a long time opposed increases in IMF quotas and urged instead a tighter loan policy and stricter loan terms (as decided by the interim committee last year) with the particular aim of persuading the heavily indebted countries to restore their economic and financial situations to a sounder footing.

87. The Americans only drew nearer to the position of most other industrialized countries after the Mexico crisis (about 1400 US banks and credit institutions are involved in Mexico). This cleared the way for decisions extending IMF credit facilities by increasing the GAB (General Arrangements to Borrow) to 17,000 million SDRs and increasing quotas by 47% from 61 to 90,000 million SDRs. Thus the Europeans almost succeeded in achieving their objective of a 50% increase in quotas. The United States was obliged to make considerable concessions, not least because of high standby loans for debtor countries such as Mexico, Brazil and Argentina. The agreed topping up of the IMF was delayed some time by the reluctance of the US Congress to ratify. However it now seems certain that the IMF commitments for 1984 will be refinanced, but there might be shortfalls in 1985.

88. Although the agreements of the IMF Interim Committee on topping up are very welcome, they will probably not be sufficient. According to the calculations of the Institute of International Economics in Washington, the acute lack of currency reserves in Third World debtor countries calls for an annual increase of 9,000 million SDRs. The developing countries and certain international bodies such as the North-South Commission (Brandt Commission) are calling for a 100% increase in quotas, further extension of the GAB to act as a safety net and recourse by the Fund to self financing on private capital markets<sup>24</sup>. This has encountered strong resistance particularly in the US Congress and Administration. Consideration should nevertheless be given within the Community to whether the IMF should not be given more resources particularly because of its important role as regards the confidence of commercial banks to enable it to play a leading role in the debt rescheduling activities which will become necessary shortly and to encourage the flow of private capital to developing countries.

89. Topping up the IDA: The World Bank and the IDA have financing difficulties because the American Government is dragging its feet on its financial commitments. It is also US policy to seek greater influence on the development policy of these institutions and to block new projects such as the setting up of an energy subsidiary of the World Bank which is favoured by the Community. In the negotiations held in January this year on the topping up of the IDA for the seventh time, the USA succeeded in limiting its payments to no more than \$750 million per year and a maximum of 25% of the total of \$9,000 million for the next three years. The other 32 donor countries considered that the IDA, a subsidiary of the World Bank granting interest-free loans for terms of up to 50 years to the poorest developing countries, should be topped up by \$12,000 million. However it has been estimated that about \$16,000 million would be required for the 1984-1987 period to support structural adaptation in the poorest developing countries. The seventh IDA is thus about 25% smaller than the sixth (\$12,000 million), which itself had to be spread over an extra year until June 1984 because of a delay in payment from the USA. The recipient countries therefore have to reckon with less IDA credit. The US, the wealthiest donor country, has thus again cut its contribution to the total by about 2% compared with the last IDA term. Since the establishment of the IDA in 1961 the US contribution has fallen from 42 to 25%.

90. Scope for action by the Community: As the Community, the main trading partner of the developing countries, has a great interest in the stability of the international economic system, and the US is failing to show much enthusiasm for solutions to development and international economic problems, the Community should no longer tolerate this situation.

The Commission has therefore also pointed out the urgent need for a common European position in the World Bank grouping, so that influence may be brought to bear on the operations of these institutions, which are essential instruments of the Member States' presence in the Third World<sup>25</sup>. The Commission also called for Community financial participation in the multilateral development financing institutions. Apart from this aspect, the Commission's proposal to extend the activities of the EIB beyond the ACP and Mediterranean areas, to cover energy projects in other developing countries, deserves support. In this connection, consideration should also be given to whether the Community could use its own borrowing capacity to finance investment in the mining and energy sectors in the developing countries. The Commission also proposes that the Community should be enabled to act or at least initiate coordinated action in the appropriate international bodies in serious balance of payments crises in countries with which it has contractual relations. As, for trade reasons the Community has an interest in stabilizing the international monetary structure, a greater role should be sought for the EMS and the ECU as a stabilizing factor. This would be greatly helped if the ECU acquired the attributes of a currency, namely those of a unit of account, of an instrument for transactions and of a reserve asset.

91. Conclusions: As the leading trading partner of the developing countries, the Community is particularly hard-hit by a decline in the international division of labour. It is therefore in its interests to push ahead efforts to solve trade and development policy problems. This means however that a common position must be found within the Community for the realignment of development policy proposed by the Commission and as recommended by the Committee on External Economic Relations in opinions in the past (see PE 85.298). It also means that the Community must assume its responsibilities as an important market for the developing countries. In the final analysis it is in its own interest, if we consider the proportion of the Community's foreign trade taken by the developing countries. The Community should therefore keep its market



open as far as possible to increased exports from the developing countries, within the limits of its own scope for liberalization, and with the trend towards growth in the industrialized countries, make an international stand in favour of opening up markets and curbing industrial protectionism.

#### IX. SUMMARY AND CONCLUSIONS

92. The USA has a crucial economic influence by virtue of the size of its economy and the leading role of its currency throughout the world. The Community should therefore do everything in its power to encourage the USA to live up to its world economic responsibilities. The Community must cooperate with the USA but this does not mean that it should neglect opportunities to take the initiative itself or fail to make clear its divergent interests in areas such as development or trade with the Eastern bloc. Above all it is essential that the Community abandon its passive defensive role and become more active. More intensive world economic initiatives on the part of the Community are needed in this respect. Given its high level of dependence on foreign trade the Community cannot afford to stand idly by and watch world trade decline.

93. The pattern of trade conflicts with the United States shows that it is important to approach the USA with clear proposals, act together and stand united. The end of the 'family row' on the gas pipeline and the agreement with the USA on carbon steel showed that action by an individual State or group of States was largely ineffective while a common approach led to success. United the Community can achieve more in global matters relating to trade, monetary and foreign policy than any individual European country.

94. Two trends are discernible at the present time: firstly, the Community is in danger of drifting apart because of its increasing internal economic problems, the extent to which individual Member States are differently affected by the crisis and the difficulties which arise from the policy of enlargement and reform. On the other hand the crisis all around increases the pressure on the Community to stand together and act jointly to face world economic challenges. This situation makes it not only possible but essential - and this is a central recommendation of this report - to combine a strengthening of the Community in its external relations with internal reform. The latter relates in particular to the restructuring needed in the steel industry, improved monetary cooperation and the expansion of the EMS,

reform of the common agricultural policy and the necessary development of the internal market. This would increase the Community's ability to direct and adjust its internal affairs and encourage the process of integration. It also has the advantage that by combatting many of the causes, trade conflicts could be defused and the Community would become more resistant to attacks and disruptions from outside.

95. It is unlikely that with increasing protectionist pressure and economic difficulties on both sides of the Atlantic there will be any reduction in the potential for conflict with the United States. It is more likely that a number of problems such as the steel sector and export administration will become permanent features and that conflicts such as those in the agricultural sector will become more pronounced. As world trade increasingly depends on the three major trading powers, the USA, the EEC and Japan, the survival of the international system depends essentially on a settlement of the disputes between them and a revival in the international economy.

96. The United States has a wide array of legal provisions and instruments to protect its domestic industries and to pursue its external trade objectives. By comparison the Community is modestly equipped. Proposals have been made for the Community to strengthen its trade policy by introducing measures against unfair commercial practices. In the light of experience of disputes with the USA this is to be welcomed in principle, as it would consolidate the central powers of the Community and enhance its ability to react in the foreign trade field.

97. Although the existing contacts and methods of consultation between the Community and the United States do work, consideration should be given to expanding institutional relations with the USA, and an agreement might be sought setting out a joint code of conduct in cases of conflict (such as no unilateral measures, the duty to consult the other party, standstill or moratorium on certain measures while negotiations are being conducted etc.). This would help to strengthen the Community in its external relations vis-à-vis the United States which would prevent unnecessary escalation. This could avoid or reduce the negative affects of transatlantic trade conflicts on the world economy and on multilateral negotiations. More specifically, your rapporteur recommends the following:

- We welcome the Carbon Steel Arrangement with the USA and the Community's retaliatory measures in response to the American obstacles to European special steel imports, and the Commission should be supported in its negotiations in future disputes. The EEC-US steel agreement should be upheld as far as possible, and its termination should be contemplated only in the case of gross violations. In view of the world overcapacity, negotiations should be conducted in GATT on ceilings for state subsidies and their progressive reduction, in order to remove one of the main causes of disputes over steel.
  
- The Community should take into consideration the effects of reforms in agriculture on its external relations, but should not allow itself to be deflected by American objections and threats from adjusting the agricultural policy as necessary to changed financial and external economic circumstances. The Community should continue to seek mutually satisfactory solutions by bilateral and multilateral negotiations (GATT) to the problems of trade in agricultural products. As the production of surpluses is a great problem for the US as well as the Community, guarantees of parallel reductions in subsidies should be sought in the interest of both sides.
  
- A joint policy statement on the security aspects of trade with the Eastern Bloc, especially the transfer of technology, would be most valuable to represent to the Western Alliance the Community's essential interests in respect of trade and détente. Despite the existing inbuilt differences between the US and Europe over trade with the Eastern Bloc, the Community should continue to act on the basis of its interest in an extension of East-West economic cooperation. In particular it should point out to the Americans that unilateral measures (export administration legislation) which encroach on the sovereignty of the EEC Member States are not only an unnecessary burden on the alliance and a possible cause of economic injury, but undermine the basis of trust and the principle of mutual consultation in the search for compromise solutions to specific problems.

- The Community should adopt measures for the external consolidation and internal development of the EMS while stepping up its efforts to achieve international coordination of exchange rate and interest rate policies (in particular between the monetary authorities in the USA, Japan and the Member States of the Community). In addition it should continue to exhort the USA to embark on a more active policy of intervention on foreign currency markets, to reduce interest rates further and to limit its budget deficits in order to restrict the negative effects of American monetary and fiscal policy on the world economy. The Community should also continue to make efforts to win US support for a realignment of the world monetary system. The objectives might include agreements on fluctuation margins and obligations to intervene on the part of central banks to create more stable exchange rates and provide more certainty in trade. The EMS could serve as a model for international arrangements of this kind.
  
- If the GATT system is to be maintained and strengthened, the Community should work towards stricter guidelines in respect of non-tariff barriers to curb protectionist proliferation and make it subject to internationally binding criteria. It should also work on a multilateral basis to obtain agreements for the progressive and parallel reduction of subsidies in problem industries over limited adaptation periods. The US proposals for a new round of GATT should be examined carefully by the Community to ascertain whether they would strengthen GATT and help it adapt itself to changed international economic circumstances. The Community should however insist on full implementation of the last major GATT negotiations, the Tokyo Round, before the new round begins.
  
- As the developing countries' main trading partner, the Community can no longer put up with the lack of initiative on the part of the US to solve the outstanding problems over trade and development. It is therefore of special importance to reach a common European position in the multilateral development finance institutions, and to adopt a uniform view within the Community on the Commission's proposals for a realignment of development policy. In view of the ominous problem of indebtedness in the Third World and the extreme shortage of funds in the IMF and IDA, the proposals to extend the scope of the EIB, to use Community borrowing

power to finance development and for the Community to be able to intervene in the event of severe balance of payments crises in countries with which it has contractual relations should be considered.

98. In the past the Community has not always been able to assert itself in bilateral negotiations and conflicts with the USA or in international organizations and institutions to the extent justified by its role in the world economy. This is due both to the frequent lack of internal consensus and also the lack of central Community powers. But the root cause is that the Community has no political unity and no uniform economic policy, but simply powers in respect of a trade policy. The Community remains a disparate collection of states representing not only different interests and points of view in relation to the USA and other countries but also different economic policies and different national solutions for overcoming economic problems. This exacerbates the lack of economic convergence between Member States and the Community's scope for action in external relations is weakened by the divergent interests within. The only remedy is reform and consolidation of existing common systems and a gradual transferral of economic and foreign policy powers from the national to the Community level.

## References

- (1) See PE 86.129, PE 88.380; Commission of the European Communities Annual Economic Survey 1982-1983, Brussels, 28.10.1982.
- (2) See Reinhard Rode, Amerikanische Handelspolitik gegenüber Westeuropa, Frankfurt/New York 1980.
- (3) Twenty Fifth Annual Report of the President of the United States on the Trade Agreements Program 1980-1981, Washington 1982, pp. 153 and 156.
- (4) See: Hanns-Dieter Jacobsen, Asymmetrien und Interdependenzen in den transatlantischen Wirtschaftsbeziehungen, SWP research report, February 1981.
- (5) Eurostat, Monthly bulletin of external trade statistics, special edition 1958-1982, pp. 5 and 8.
- (6) See Commission brochure: 'Europa information', foreign relations, No. 57/82, p. 19.
- (7) International Economic Report of the President transmitted to the Congress, January 1977, p. 85 and Europa information 57/82, p. 27.
- (8) See: Official Journal of the European Communities, No. L 307, 1 November 1982, pp. 1-11; PE 80.268; PE 80.475.
- (9) See: Twenty-Sixth Report of the President of the United States on the Trade Agreements Program 1981-82, Transmitted to Congress November 1982, S. 73 ff. and US-Dep. of State, U.S. Foreign Policy and Agricultural Trade, Current Policy No. 535, January 10, 1984.
- (10) See: Catherwood report in PE 81.009/rev. 2; Claude Villain, Landwirtschaft und Aussenpolitik, in : Grunes Europa Kurzinformation 19/1982; EP Resolution of 7.7.1983, OJ C 242, 12.9.83.
- (11) See also: Commission, Adjustment of the CAP (Communication to the Council, 29.7.1983), Bulletin of the EC, Supp. 4/83
- (12) EC Bulletin 7/8-1982, p. 9 and Europe Documents No. 1216 of 12.8.1982.
- (13) COM(81) 530 fin.; COM(82) 45 and Communication from the Commission to the Council on the Community's gas supplies of 15.10.1982.
- (14) 16th General Report of the Community for 1982, p. 269-270; EC Bulletin 7/8-1982, p. 63-64
- (15) Aide mémoire of 11.3.83 and of 28.4.83
- (16) Final Declaration of the Versailles Summit, in: Europa-Archiv, volume 14/1982, p. D 324 et seq.
- (17) See Commission of the European Communities, Documentation on the EMS in Europäische Wirtschaft 12/1982, chapters V and VI and pages 63-70 and annexes D, I-1-6.
- (18) Under the Domestic International Sales Corporation system American firms receive a practically indefinite deferment of tax on profits on export transactions.

- (19) See PE 80.283.
- (20) 16th General Report of the Community for 1982, p. 292 et seq.
- (21) See PE 88.380, p. 7.
- (22) Economic Report of the President transmitted to Congress, Washington 1982, p. 184.
- (23) Memorandum on the Community's development policy, EC Bulletin, Supplement 5/82: See also 16th General Report, p. 323 et seq; PE 78.590.
- (24) 2nd report of the North-South Commission (Brandt Commission), published as 'Common crisis', 1983.
- (25) Memorandum on development policy (see Reference 23), p. 23 et seq.

Table A

Development of EEC-US trade 1975-1982 (in ,000 m. US\$)

	EEC imports	EEC exports	Trade balance
1975	25.6	16.4	- 9.2
1976	28.3	18.1	- 10.2
1977	29.4	23.4	- 6.0
1978	35.6	29.4	- 6.2
1979	47.1	34.3	- 12.8
1980	61.6	37.0	- 24.6
1981	55.4	41.5	- 13.9
1982	52.7	42.0	- 10.7

Source: Eurostat: Monthly Trade Bulletin, Special edition  
quoted from PE 86.129/Ann.



Table B

Geographic distribution of US foreign trade 1975-1980 (in %)

	European Community	Other Western European Countries	Soviet Union and Eastern Europe	Japan	Canada	Latin America
Imports						
1975	17	4	1	12	23	12
1976	15	4	1	13	22	11
1977	15	4	1	13	20	11
1978	17	4	1	14	19	11
1979	16	4	1	13	19	9
1980	14.9	4.3	0.59	12.7	17.2	12.3
Exports						
1975	21	7	3	9	20	15
1976	22	6	3	9	21	13
1977	22	6	2	9	21	14
1978	22	5	3	9	20	14
1979	24	7	3	10	18	12
1980	24.3	6.26	1.7	9.4	16	16.32

Source: US Dept. of Commerce, quoted from: Commission of the European Communities, Directorate-General for Information, Europa information 57/82, p. 20

Table C

US foreign trade with the Community and the World 1970-1980 (in ,000 m. US\$)

	World			Community (of 9)		
	Export fas	Import fas	Balance	Export fas	Import fas	Balance
1970	42.7	40.1	2.6	11.3	9.2	2.1
1971	43.6	45.8	-2.2	11.1	10.4	0.7
1972	49.2	55.9	-6.7	11.9	12.5	-0.6
1973	70.9	69.8	1.0	16.7	15.6	1.1
1974	98.0	100.5	-2.6	22.1	19.0	3.1
1975	107.6	96.6	11.0	22.9	16.6	6.3
1976	115.1	121.0	-5.9	25.4	17.8	7.6
1977	121.2	147.7	-26.5	27.1	22.2	4.9
1978	143.6	172.0	-28.4	32.0	29.0	3.0
1979	181.6	206.3	-24.7	42.6	33.3	9.3
1980	220.7	240.8	-20.1	53.7	36.0	17.7

Source: Twenty-Fifth Annual Report of the President of the United States  
on the Trade Agreements Programme 1980-1981, Washington 1982, p. 127

Table D

US foreign trade with the Community (in ,000 m US\$, f.o.b.)

	Primary products			Semi-finished and finished goods		
	Export	Import	Balance	Export	Import	Balance
1973	6.23	2.18	4.05	10.06	12.96	-2.98
1974	8.10	3.00	5.10	13.22	15.68	-2.46
1975	8.32	2.12	6.20	13.63	13.99	-0.36
1976	9.87	2.86	7.01	14.68	14.58	0.10
1977	9.80	3.89	5.91	15.59	17.90	-2.31
1978	10.77	5.08	5.69	20.09	23.59	-3.50
1979	13.85	6.92	6.93	25.78	27.98	-2.20
1980	18.11	6.91	11.20	33.30	30.02	3.28
1981	16.37	11.00	5.37	32.04	31.36	0.68

Source: GATT, International Trade 1977/78, 1978/79, 1981/82, Geneva 1978, 1979 and 1982, Appendix, Tables A and B

Table E

US agricultural trade with the Community 1973-1980 (in million US\$)

	Total			Feed cereals			Soya beans			Wheat		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1973	4,526.0	1,119.1	3,406.9	716	11	705	1,209	-	1,209	214	(1)	214
1974	5,504.2	1,202.1	4,302.1	739	9	730	1,629	-	1,629	242	(1)	242
1975	5,564.4	1,081.1	4,483.3	608	11	597	1,326	-	1,326	444	(1)	444
1976	6,422.4	1,227.8	5,194.6	791	10	781	1,548	-	1,548	298	(1)	298
1977	6,626.0	1,376.7	5,249.3	889	11	878	2,039	-	2,039	137	-	137
1978	7,176.4	1,897.6	5,278.3	975	13	962	2,302	(1)	2,302	265	-	265
1979	7,665.7	1,884.8	5,780.9	1,204	14	1,190	2,258	-	2,258	308	-	308
1980	8,928.9	2,079.0	6,849.9	1,697	14	1,683	2,596	-	2,596	284	-	284

- = 0

(1) = less than US\$ 500,000

Source: Twenty-Fifth Annual Report of the President of the United States on the Trade Agreements Programme 1980-1981, Washington 1982, p. 130 et seq.

Table F

US trade with the Community in selected products 1971-1980 (in million US\$)

	Steel products			Chemical products (excluding plastic)			Textiles and clothing		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1971	95	1,107	-1,012	928	524	404	184	672	-488
1972	114	1,129	-1,015	991	701	290	234	725	-491
1973	143	1,122	- 979	1,288	889	399	313	787	-474
1974	217	1,960	-1,743	1,835	1,535	300	528	652	-124
1975	169	1,311	-1,142	1,944	1,374	570	538	566	- 28
1976	188	885	- 697	2,458	1,776	682	659	696	- 37
1977	136	1,739	-1,603	2,485	1,980	505	672	820	-148
1978	157	1,228	-1,071	3,041	2,507	534	729	1,039	-310
1979	207	1,967	-1,760	3,901	2,617	1,284	1,242	994	248
1980	393	1,591	-1,198	4,313	2,761	1,552	1,376	1,003	373

	Road vehicles and accessories			Computers and related equipment			Aircraft and related equipment		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
1971	138	1,840	-1,702	591	28	563	991	132	895
1972	111	1,990	-1,879	641	34	607	767	156	611
1973	207	2,510	-2,303	811	38	773	1,090	259	831
1974	248	2,970	-2,722	1,039	57	982	1,096	211	885
1975	296	2,581	-2,285	1,030	60	970	1,220	291	929
1976	341	2,627	-2,286	1,197	77	1,120	1,021	241	780
1977	408	3,087	-2,679	1,548	101	1,447	1,083	382	701
1978	556	4,183	-3,627	2,093	125	1,968	1,757	329	1,428
1979	786	4,840	-4,054	1,753	189	1,654	2,355	604	1,751
1980	665	5,117	-4,452	2,378	179	2,199	3,765	1,033	2,732

Source: Twenty Fifth Annual Report of the President (loc.cit.) p. 133 et seq.

Table G

Bilateral trade interrelationship between the USA and the EEC

	(1) Volume of USA-EC trade in ,000 mill. US\$	(2) Real GNP (USA) in ,000 mill.US\$	(3) Real GNP(EG) in ,000 mill. US\$	(1):(2)	(1):(3)
1960	9.1	506	270	1.79	3.37
1970	20.5	993	621	2.06	3.30
1975	39.5	1,549	1,355	2.55	2.91
1979	75.9	2,414	2,390	3.14	3.17
1980	89.7	2,626	NA	3.41	--

Source: International Economic Report of the President 1977, p. 153; Twenty-Fifth Annual Report of the President of the United States on the Trade Agreements Programme 1980-1981, pp. 127 and 153

**Table H**

Direct US investment abroad (Net balance in ,000 mill. US\$ as of end of year)

	1973	1974	1975	1976	1977	1978	1979	1980
World	101.3	110.2	124.2	136.4	149.8	168.1	186.8	213.5
European Community	30.9	35.4	39.1	43.2	47.9	55.2	65.7	76.6
Rest of Europe	7.3	9.3	10.5	11.9	13.0	14.4	16.9	19.1
Canada	25.5	28.4	31.1	33.9	35.2	37.3	40.3	44.7
Japan	2.7	3.3	3.3	3.8	4.1	5.0	6.2	6.3
Developing countries	25.3	28.5	26.2	28.9	34.5	40.5	44.6	52.7

Geographic distribution of direct US investment abroad as percentage

	1973	1974	1975	1976	1977	1978	1979	1980
European Community	30.5	32.1	31.5	31.7	32.0	32.8	35.2	35.9
Rest of Europe	7.2	8.4	8.5	8.7	8.7	8.6	9.0	8.9
Canada	25.2	25.8	25.0	24.9	23.5	22.2	21.6	20.9
Japan	2.7	3.0	2.7	2.8	2.7	3.0	3.3	3.0
Developing countries	25.0	25.9	21.1	21.2	23.0	24.1	23.9	24.7

Source: US-Handelsministerium: Survey of Current Business, quoted from: Commission of the European Communities, Europa information 57/82, p. 25





## MOTION FOR A RESOLUTION (DOCUMENT 1-1091/82)

tabled by Mrs POIRIER, Mr FERNANDEZ, Mr PRANCHÈRE, Mr MAFFRE-BAUGÉ,  
Mrs HOFFMANN, Mrs DE MARCH, Mrs LE ROUX, Mr DAMETTE, Mr PIQUET, Mr FRISCHMANN,  
Mr MARTIN, Mr CHAMBEIRON and Mr BUCCHINI

pursuant to Rule 47 of the Rules of Procedure

on the approach to be adopted by the Council and the Commission in the  
economic and trade negotiations between the EEC and the United States

The European Parliament,

- whereas the legal proceedings instituted in 109 cases by American steel manufacturers against European steel manufacturers and approved by the United States Government are unjustified, as steel from the Community accounts for only 1% of the American market, American imports of Community steel having fallen by 16% between 1979 and 1981,
- whereas, if these proceedings are successful, this would mean, in particular, a drop of over 1 million tonnes per annum in sales of French steel, which could lead to job losses and higher unemployment,
- having regard to the ECSC Consultative Committee's resolution of 5 February 1982 which states that the present situation represents a violation by the United States of the consensus reached in November 1977 by all the Member States of the OECD and of the substance and procedure of the GATT rules,
- whereas the United States if once again exerting the same pressure as it did in 1979 during the final negotiations in the Tokyo Round, within the framework of GATT, regarding the existence and operation of the common agricultural policy,
- whereas these pressures represent a real danger for French farmers in particular, since the aim is to secure the abandonment of agricultural mechanisms which guarantee farmers a reasonable income and to open up the European markets to competition, notably from American products,
- whereas American economic and monetary policy is designed firstly to keep the dollar exchange rate and interest rates at a high level, which makes it more difficult to implement a policy of economic recovery and job-creating investment, and secondly to transfer the burden of the American Government's economic difficulties to the Community,
- having regard to the Ten's deficit in trade with the United States (128 thousand million francs in 1980) and France's trade deficit with the latter (16.8 thousand

million francs in 1980),

- Considers it unacceptable that the United States should adopt an aggressive attitude which is so greatly at variance with the principles of cooperation and openness they advocate;
- Calls on the Council and the Commission to take a very firm stand towards the United States, particularly in the forthcoming ministerial negotiations within the framework of GATT in November 1982;
- Calls on the Council and the Commission to make employment and job-creating investment the main considerations when adopting its position in the forthcoming economic and trade negotiations;
- Calls on the Commission to put forward as soon as possible proposals for the concerted reduction of interest rates in the Community which will be acceptable to all the Member States;
- Urges that monetary questions and, in particular, the role of the dollar should be discussed in the forthcoming multilateral trade negotiations, as allowed for in the GATT agreements;
- Considers it essential that, if the negotiations fail or there is no satisfactory agreement, the Council and the Commission should take the necessary retaliatory measures.

## MOTION FOR A RESOLUTION (DOCUMENT 1-732/82)

tabled by Mr de La MALENE, Mr COUSTE and Mr MOUCHEL,  
on behalf of the Group of European Progressive Democrats

with request for an early vote  
pursuant to Rule 42(5) of the Rules of Procedure  
winding up the debate on the oral question (Doc. 1-617/82)  
on EEC-USA relations

The European Parliament,

- A. concerned at the increasing number of trade disputes between the Community and the USA, in particular over steel, the gas pipeline, agricultural products and preferential agreements,
1. Stresses the need to strengthen Western solidarity during this period of economic crisis,
  2. Expresses its sincere desire that the present trade disputes should be settled as quickly as possible and on an amicable basis,
  3. Considers that at a time when Europeans are making a great effort to participate in the defence of Western security, a policy causing a deterioration in the economic and social situation of the Community would be contradictory,
  4. Considers it necessary for the United States and Europe to agree on policy statements towards the Soviet Union and for the commercial sacrifices involved to be shared equally, as regards both industrial and agricultural products,
  5. Approves therefore the objectives and methods aimed at reviewing the economic policy of the West towards the Soviet Union at a time when events are continuing to occur in Afghanistan and Poland,
  6. On the matter of steel, notes the trade arrangements between the Commission and the US Government and welcomes the fact that, despite the major sacrifices involved for them, all of Europe's steel producers are willing to implement the agreed arrangement,
  7. Urges that this arrangement should enter into force as quickly as possible in the interests of the relationship of trust which it is essential to maintain between the United States and Europe, and therefore requests the government to implement every possible means to this end,

8. Expresses the desire that the Commission should explain clearly to the US Administration the justified nature, success and importance for Europe of the CAP and that the American complaints concerning flour, poultry, sugar and food products are not economically justified, particularly in the light of the large agricultural trade deficit of the Community in respect of the United States,
9. Recommends that before the forthcoming Ministerial Conference in November all the conciliation and consultation procedures under GATT should be effectively applied and that this Conference should attempt to achieve a better balance in the mutual obligations of the principal trading partners;
10. Calls for better cooperation between the dollar and the currencies in the EMS, by means of appropriate 'interventions' with a view to eliminating or reducing the strains and the disorders among them and achieving monetary stability, which is necessary for the establishment of a new international monetary order;
11. Finally, supports any move which the Community might make to prevent traditional flows of trade between the EEC and the United States from being seriously disturbed and the employment of thousands of workers from being jeopardized,
12. Instructs its President to forward this resolution to the Council and Commission.

## MOTION FOR A RESOLUTION (DOCUMENT 1-720/83)

tabled by Mrs DUPORT, Mr J. MOREAU, Mr BOMBARD, Mr EYRAUD, Mr THAREAU,  
Mrs VAYSSADE and Mrs VAN HEMELDONCK

pursuant to Rule 47 of the Rules of Procedure  
on American wine production

The European Parliament,

- A - whereas both the quantity and quality of American wine production has shown an upward trend for a number of years,
- B - whereas accordingly, the United States is seeking to export more wine to Europe - in 1981/82 the United States imported 4,020,975 hl from the EEC and exported 75,303 hl,
- C - whereas the United States authorizes the use of certain products and practices on their territory which are prohibited in the countries of the Community,
- D - whereas on 26 July 1983, consultations between the United States and the Commission culminated in an exchange of letters with the endorsement of the Member States,
- E - whereas the Commission is planning to make some exceptions to Community regulations so as to allow the import of certain American wines which have been subject to practices prohibited in the Community,
1. Considers that these exceptions in favour of the United States are unacceptable, particularly as the United States is uncooperative with regard to the products that they import;
  2. Calls on the Commission to revoke these exceptions and requests it to impose the same obligations on the United States as are required of European winegrowers;
  3. Instructs its President to forward this resolution to the Commission, the Council and the Member States.

OPINION

(Rule 101 of the Rules of Procedure)

of the Committee on Economic and Monetary Affairs

Draftsman: Mr WELSH

On 24 November 1982 the Committee on Economic and Monetary Affairs appointed Mr Welsh as draftsman of the opinion

The committee considered the draft opinion at its meeting of 28-29 April and June 14-16, 1983 and adopted it on the latter date on a unanimous vote with 1 abstention.

The following took part in the vote:

Mr J. MOREAU, (Chairman; Mr HOPPER (Vice-Chairman); Mr DELEAU (Vice-Chairman); Mr WELSH (Draftsman); Mr BEAZLEY; Mr BONACCINI; Mrs DESOUCHES; Miss FORSTER; Mr HALLIGAN (Deputizing for Mr Caborn); Mr HEINEMANN; Mr LEONARDI; Mr MULLER-HERMAN; Mr PAPANTONIOU; Mr ROGALLA (deputizing for Mr Ruffolo); Mr SCHINZEL; Mr von WOGAU

1. The following paragraph illustrates the degree of economic interdependence between the Community and the USA, our second largest trading partners after the EFTA countries.

1980 US/EEC Trade (MN. ECU)

EEC Total Imports inc. intra Community	515,931
Total from USA	43,970
%	8
EEC Total Exports inc. intra Community	475,054
Total to USA	31,530
%	6

Although the deficit, 30% of total trade in 1980, was uncomfortably high, the output represented by 6% of total exports is extremely important at a time of high unemployment, particularly as there is no obvious substitute for the American market.

This point is even more clearly illustrated when one examines the share of US trade by Member States:

US Imports/Exports % total

	<u>Import</u>	<u>Export</u>
BLEU	7.7	3.3
Denmark	4.4	4.7
France	8.0	10.6
Germany	7.2	6.1
Ireland	7.8	5.3
Italy	7.0	5.3
Netherlands	8.8	2.5
U.K.	13.4	9.4

It is remarkable to notice the extent to which France depends on US trade and her great success in penetrating the domestic American market.

Of even greater significance is the extent of American investment in the Community.

At a time when the President of the Commission reminds us constantly that increased investment is the key to the revival of European industry the United States is a pre-eminent and irreplaceable source of capital.

Unfortunately comparable figures for European Investment in the United States are not available, but in 1980 the total was \$38,750 million, over two thirds of all foreign investment in the USA. This spreads European portfolio investment and helps to keep the US market open, and provides a contra flow of funds to offset profits repatriated to the United States. The level of mutual investment is not only an important source of expanded output on both sides of the Atlantic but also underpins the political interdependence of the Allies.

Finally at a time when the problems of rising unemployment are regarded as the principal concern of Europeans throughout the Community it is important to note the number of European jobs which are supported by American companies.

US Multinational Company Employment in the EEC 1977 (,000 employees)

	All industries	% Total Employed	Manufacturing	% Total Employed
BLEU	164.5	4.3	124.9	8.5
Denmark	20.3	0.8	9.2	1.3
France	470.9	2.2	360.7	4.6
Germany	587.4	2.4	482.2	4.3
Ireland	27.6	2.6	22	6.6
Italy	212.8	1.1	168	2.2
Netherlands	136.1	2.9	96.9	6.4
UK	<u>1069.3</u>	<u>4.4</u>	<u>810.4</u>	<u>8.3</u>
Total	2688.9	2.6	2074.3	5.1

No figures are available for the large numbers of Community citizens who live and work in the united States and it is impossible to quantify the



benefits to both sides from the exchange of management and operating techniques, patents, inventions and so on.

The central point is that in economic terms the Community and the United States are interdependent and it is of prime importance to ensure that the relationship works well and to the benefit of all. No temporary disputes on individual sectors should be permitted to interfere with the smooth running of the whole.

2. The disputes which bedevil US/EEC relations have their immediate roots in the recession and consequent lack of growth on both sides of the Atlantic. Neither the EEC nor the USA have coped particularly well with the oil shocks and the technological revolution. Unemployment in the United States is broadly comparable with that in Europe and as in Europe this has given rise to protectionist tendencies particularly among the Labour Unions. In an AFL/CIO pamphlet called 'Fair Trade not Free Trade' the American Unions claim that the US Government has failed to protect its domestic market and has been outmanoeuvred by crafty foreigners who have used unfair means to deprive Americans of jobs. They have called, among other things, for much tighter controls on imports, an aggressive 'Buy American' policy for the US Government and restrictions on the outflow of capital for investment abroad. More recently the Congress actually passed a Domestic Content Bill which would have effectively eliminated foreign manufactured goods from the US market unless 60% or more of the components were American made. When one considers the implications for European output, investment and jobs as shown in paragraph 2, it becomes clear that implementation of such policies would be a catastrophe for the Community. Those in Europe who call for similar nostrums, supposedly to protect European jobs should reflect on the consequences of their policies being applied by the United States to us.

The steel dispute was the result of myopia by both sides. With the US Steel Industry operating at less than half capacity and jobs being lost at an increasing rate the pressure on the American authorities 'to do something' was overwhelming; we have been having exactly the same demands to exclude imports which are 'costing European jobs' from representatives of our own steel industry. The US market represented one of the few export outlets for the embattled European steel industry and it was no wonder that every effort was made to exploit it, thus leading directly to the anti-dumping suites. The fact that so ugly a dispute was solved at least on a temporary basis, reflects much credit on the authorities for both sides.

A similar but more dangerous situation has arisen in the agricultural sector. Behind the rhetoric lies the fact that there is substantial overproduction in both Europe and America and in both cases the farming community has seen its living standards eroded and its expectations reduced. As things stand the United States and the Community face the real prospect of an agricultural price war because neither is prepared to recognize that the problem is a shared one and must be solved by mutual agreement, and that the alternative would be completely destructive. No one in Europe should underestimate the determination of the US Administration to defend what it sees as its legitimate interests; as Secretary of State Schulz put it at a recent Congressional hearing.

'The wheat flour sale ... was on the one hand designed, of course, to sell some of our product, but also to say to people we're serious about this problem and we think the negotiations to resolve these problems had better be taken seriously by everybody.'

The European Community would do well to pay heed to this warning. Both parties must recognize that mutual concessions and some sacrifice of entrenched positions is going to be necessary if a disastrous trade war is to be avoided. The same good sense and clarity of thinking that defused the steel dispute is urgently needed in agriculture.

3. Unlike the other cases the pipeline dispute was essentially a political issue based on the failure to agree on a common approach to trade with Eastern countries and its strategic implications. In particular, failure to agree on a common credit policy at the Versailles Summit in June 1982 led to a crude attempt by the US Administration to impose their views on the Europeans. This dispute has also been settled, but its reverberations will no doubt continue for some time to come particularly as regards the extra-territorial application of domestic legislation. Talks are going on with a view to reaching a consensus on credits for the USSR and European companies are continuing to supply the Urengoi pipeline. The fact that the dispute has been resolved is a tribute to the basic strength of the relationship, but it is not a strength that should lightly be taken for granted.

The lesson that emerges from this and other disputes is that the US-European dialogue is in urgent need of refurbishing. There has been an increasing tendency to politicise our disagreements so that compromise is seen as a sign of weakness and nothing less than complete surrender by the other side is acceptable. We need to reach a position where the regularity and the depth of routine contacts between the Commission and the US administration are comparable with those that take place within the framework of the Franco German Treaty. Such issues as the extension of GATT rules to agriculture and services, the definition of subsidies, the joint management of agricultural markets, agreement on a common credit policy, need to be solved at an administrative level before they can become political issues; then the basic foundations will exist for constructive initiatives in the field of international financial management and North/South relations. When the European Parliament's delegation visited the US last June a senior State Department official observed that the current crop of disputes were basically technical and thus capable of solution. However, if the structure of the European/American dialogue were allowed to deteriorate in a welter of recrimination and petty bickering it was difficult to see how we would be able to arrive at common responses to the global economic and political questions that would have to be faced towards the end of the decade.

4. The Carter Administration left office with the \$US seriously undervalued, a phenomenon which had enabled US exporters to make substantial inroads into European markets, notably in the chemical and textile sectors. The present Administration has pursued a policy of tight money and high interest rates in an endeavour to cover their escalating budget deficit produced by higher defence spending. The \$US has strengthened at the expense of European currencies, but the high interest rates have attracted foot-loose funds and forced the Community banks to raise their interest rates in response. The result of the increased cost of borrowing has been to discourage investment and delay recovery in Europe as well as imposing a heavy burden on those developing countries with huge debt servicing costs. Moreover the laissez faire attitude of the Administration to exchange rates has had a destabilizing effect on the world's monetary system, discouraged investment and put a substantial strain on the weaker currencies. Unfortunately no understanding was reached at the Versailles summit of June 1982

and it was widely felt that the doctrinaire attitude of US officials had prevented them from understanding the European case for greater flexibility and pragmatism in their economic management. Since then there have been some marked indications of improvement in American economic performance and it is hoped that this will set the scene for a new understanding to emerge at the Williamsburg summit. If there is to be any chance of substained recovery the United States and Japan must join with the Community in agreeing to a common approach to exchange rate management, perhaps through an international parity grid and a common policy on interest rates designed to manage them downwards and prevent one country from putting pressure on the others by forcing up rates. Such an agreement, which should not be institutionalized, would become far more feasible if the Member States could demonstrate their cohesion by agreeing to move rapidly to the next stage of the development of the EMS.

5. The principal economic danger facing the world at present is the possible collapse of the banking system under the mounting pressure of third world debt. In particular the private banking sector has allowed itself to become dangerously exposed in lending to countries such as Mexico, Brazil, Korea and Taiwan. European Banks have had similar problems overextending themselves in lending to Poland, Rumania and other East bloc states. Concerted action by the American and European Authorities is urgently needed to defuse this potentially dangerous situation, and the role of the multilateral financial institutions such as the World Bank and the IMF needs to be reconsidered. It is regrettable that the present Administration has failed to take the lead in developing the role of these bodies and indeed has reduced its subscription to IDA. If more developing countries are not going to face the real possibility of default, something will have to be done to alleviate their immediate debt burden, without however removing the disciplines of prudent financial management. In this regard it is interesting to take note of a speech by Mr Donald Regan, US Secretary of the Treasury, during a visit to Frankfurt, when he suggested that the IMF might be given a new instrument guaranteed by the US, the Community, Japan and other developed countries. This instrument would be used as a last resort cover against default so as to enable the private sector banks to undertake re-scheduling operations for countries in difficulty without facing loss of confidence by their own investors. Although it is unlikely that there will ever be complete identity of view

on how to solve the world's financial problems much could be achieved if the three dominant free market economies could cooperate more constructively than heretofore.

6. American investment is already an important component of Europe's capital base and this must be increased in absolute terms if we are to achieve our goal of investment lead recovery. If this is to happen the climate must be improved and American investors made to realize that their capital is welcome in Europe. In the positive sense this means redoubled efforts to complete the internal market, making progress in the development of the EMS and enhancing the role of the ECU, both of which are high on the list of the Community's priorities. It goes without saying that further development of the EMS would make it much easier to offer a credible package for exchange rate discipline and would make the potential scale of European operations much greater.

We should also be aware that much of the social and structural legislation introduced by the Commission is perceived in the United States as a direct attack on American companies, a misperception that is encouraged by the rhetorical indulgences of some European politicians. No one suggests that the development of European Company Law should be subject to the approval of American business, but such legislation should be framed with at least some regard for its effect on the investment climate.

#### CONCLUSIONS

7. The conclusions of the Committee on Economic and Monetary Affairs are as follows:
  - (a) The American and European economies are interdependent and this has a critical importance for European output investment and jobs. Any reduction in the degree of interpenetration would be to the detriment of European and American workers.
  - (b) The protectionist tendencies on both sides of the Atlantic constitute a major threat to the smooth running of the economic relationship and has led to damaging disputes in steel and agriculture. Although the United States considers herself to be an open market, average

tariffs are considerably higher than around the Community and successive Administrations have been ready to use mechanisms such as Section 301 of the 1975 Trade Act to protect particular sectors when under pressure for imports. The proposal for a Council Regulation to strengthen the Common Commercial Policy is a response to American policy in this sphere and critics of the Community often fail to recognize the high degree of protection that the US has insisted on maintaining in past GATT rounds.

- (c) A further cause of tension are differences of political views on relations with the East Bloc notably as regards the provision of credits. This has already led to a serious confrontation over the Urengoi pipeline and could lead to further disputes between the Western partners and a lasting consensus is urgently needed. The Committee considers that this and other attempts by the United States to enforce her domestic legislation outside her sovereign territory is quite unacceptable and can only lead to increased friction between the partners.
- (d) These technical disputes need to be de-politicised and handled through a more frequent and deeper spectrum of official contacts. This presupposes a common set of Community positions on these key issues which the Commission can present on the basis of absolute solidarity. It is noticeable that where the Community has embraced a common policy vis-à-vis the United States its views have been accepted. Recent examples include the steel and pipeline disputes and the GATT Ministerial meeting.
- (e) Persistently high US interest rates owing to the large budget deficits and the tight stance of monetary policy have had a destabilizing effect on the world's monetary system and this has been exacerbated by the Administration's refusal to intervene in the markets in any but the most exceptional circumstances. Inaction has deepened the recession, delayed recovery and imposed a heavy burden on the weaker third world economies. The Committee hopes that the follow-up to the Williamsburg summit may usher in an era of improved monetary cooperation between the USA and Europe based on mutual recognition of the

need to stabilize the exchanges and to bring interest rates down.  
A tripartite programme including the Japanese to restore economic growth is urgently needed.

- (f) Cooperation between Europe and the United States is essential if lasting solutions are to be found to the immediate problems of third world indebtedness and the wider problems of North/South relations and the preservation of open trade. Such cooperation depends on a conscious effort being mounted to improve the structures of the dialogue between the United States and the Community and a unity of views among the Member States.

In particular the Committee believes that the time has come for a new look at the IMF and other multilateral financial institutions, and at the possibility of providing the IMF with an additional instrument funded by the OECD countries which would be used to guarantee the borrowing of those developing countries which are threatened with default. In particular the United States must be urged to shoulder its responsibilities towards the developing world, particularly as there are convincing signs that its domestic recovery is gaining strength.

- (g) An increased flow of American investment will be an important component in the economic recovery of Europe. This can best be encouraged by action to complete the Internal Market, consolidate and develop the EMS, reinforcement of the role of the ECU and making sure that legislative initiatives will generally enhance the investment climate.

