

A Letter from Europe

A monthly update on the European Community from its Delegation in Washington

From: Roy Denman
Head of Delegation

April 26, 1983
No. 2

THE BOSTON TEA PARTY REVISITED

I was in Virginia a few weeks ago looking at some of its history and admiring the way in which the National Park Service of the Department of the Interior has exhibitions, films and audio visual aids to bring it alive. In Yorktown you can see graphically presented some of the main events of the War of Independence. And for a European with a British passport there is a particular fascination in seeing and hearing the angry citizens of Boston protesting against the duty on tea and throwing hundreds of chests of tea into the harbor. The reaction of the good citizens of Boston was understandable. They were protesting against arbitrary decisions taken several thousand miles away and which had caused them harm.

And that is what we might face in reverse if some versions of legislation now before the U.S. Congress become law.

The legislation referred to is that which will renew the Export Administration Act of 1979. This has caused a lot of concern within the European Community.

Our concerns in fact date from the existing 1979 Act, already the center of a lot of discussion, particularly last autumn over the pipeline.

Our principal concern is with what is called extraterritoriality. In effect what we object to is the U.S. claim to jurisdiction over European subsidiaries of U.S. firms and over U.S. goods or technology located outside the U.S. This means that export controls could be imposed which would expose companies incorporated in the Community or handling certain goods or technology of U.S. origin to sanctions. And this is complicated by the use of retroactive export controls - so that the sanctions could be imposed long after contracts had been concluded in good faith and in full conformity with all U.S. laws and regulations in force at the time. All this has serious consequences for international trade. It introduces an element of insecurity against which it is virtually impossible to take effective precautions. And

it could not just damage European firms. These possibilities must breed a reluctance to buy technology from countries which use this method of regulating trade.

Let us suppose that the situation were reversed. Let us suppose that a European government or the Community were to say to the U.S.--"You have got your trade relationship with a certain major country completely wrong. We thoroughly disapprove of how you are conducting your relations and we are therefore ordering all European firms which have any dealings with the U.S. over an important range of high technology to cut off their supply of know-how and goods. And we are instructing European subsidiaries manufacturing in the U.S. to take similar action". I suspect that the reactions here would be not very dissimilar from those of the citizens of Boston.

A further point which worries us is the possibility given to the President in the draft bill proposed by the administration to prescribe controls on imports of goods or technology on "Whoever violates any national security control" imposed under the act. We do not think this provision is compatible with the international trading rules in the GATT. And we think that this will further undermine the climate of confidence indispensable to trade.

We recognise that some new provisions have been added to the draft which are intended to be helpful-- for example a declaration that it is the policy of the U.S. to minimize the impact of new foreign policy controls on business activities in allied or friendly countries-- and the inclusion of a contract sanctity clause. But this first provision is not matched by any commitment to those provisions in the operative sections of the Act which give rise to the possibility of extraterritorial application. And the contract sanctity clause has significant limitations. In particular, the contract sanctity clause only protects the transfer of goods and technology for a period of 270 days after export controls have been imposed; this might be fine for agricultural goods but it is too short a time for contracts for industrial goods, which can require a longer delivery schedule.

No one in the Community would seek to deny the U.S. or any other country the right to restrict its trade with the Soviet Bloc. But we do think that ways should be found of doing this which will not inflict damage on its friends and not flout international law and the international trading rules. So we very much hope that the suggestions which we are making to the U.S. Administration will be accepted before this bill is passed into law.

More in our next issue (end of May), in particular on developments on the agricultural dispute between the U.S. and the E.C. In the meantime, attached are some items of Community news.

Ray Sorman

Window on the European Community

THORN EXPRESSES CONFIDENCE IN SUCCESS OF WILLIAMSBURG...

...EC Commission President Gaston Thorn said he left an April 21 meeting with US President Ronald Reagan even more confident than before that next month's Western Summit in Williamsburg, Va. would be a success and that US-EC cooperation would help make it so. Thorn, invited to the White House for pre-Summit talks, also met with Secretary of State George Shultz during his one-day working visit to the US. He told reporters that orchestration of a sustained economic recovery should be the dominant theme of the Williamsburg parley. He said the American leaders appeared to agree that the recovery would be fragile, particularly in Europe, and on the need to keep alive the rekindling of confidence in the world economy.

Thorn said he stressed the need for a reduction in current high US real interest rates to spur investment and fuel recovery. He said he also urged US leaders to restrain the strength of the dollar and to help prevent erratic fluctuations in exchange rates by relaxing their present policy of non-intervention in foreign exchange markets. The two Presidents, Reagan and Thorn, agreed that the US and the Commission needed to make urgent efforts to find solutions to their differences on international trade issues. Thorn said he did not expect the controversial topic of East-West trade policy to be a major issue at Williamsburg. Both men noted the progress made to date in organizations such as COCOM and the OECD towards a common Western approach on East-West trade relations. Thorn said he did not think the Summit would be the occasion for a detailed discussion of bilateral US-EC differences on agriculture.

COMMISSION FIRM ON PROPOSAL FOR ONLY MODEST INCREASE IN FARM PRICES...

...EC Farm Ministers could reach agreement as early as this week on a package of proposals establishing common internal prices for EC farm goods in the 1983-84 marketing season. The Ministers emerged from a three-day bargaining session last week after making some progress towards a final agreement and are scheduled to resume their negotiations Wednesday, April 27.

EC Farm Commissioner Poul Dalsager urged the Farm Ministers to restrain the price increases offered the Community's eight million farmers in 1983-84 to avoid straining the EC's budget. Despite strong pressures from some EC Member States, the Commission late last week ruled out any major changes in

its proposals for only a small increase in farm prices, particularly for surplus products like grains and milk. The Commission described its position on the matter as "extremely firm". The Commission's proposals would increase the price of most farm goods by 5.5% in 1983-84 for an overall average increase of 4.2%. Support prices would be increased by lesser amounts for products produced in surplus. The proposed average 4.2% increase would be less than half the increase EC farmers received in 1982-83.

EXTENSION OF STEEL PRODUCTION QUOTAS PROPOSED...

...The EC may continue to impose steel production quotas on its Member States until 1985 if EC Industry Ministers agree to that plan. The quotas, which put a lid on the amount of steel each EC member can produce, are part of the EC's ambitious efforts to adapt its steel industry to a shrinking market. That industry has reduced its workforce by more than one-third since 1974. The quotas had been due to expire this July.

Elsewhere on the steel front, the EC Commission last month challenged a March 24 ruling by the US International Trade Commission that imported specialty steel, including products from the EC, had damaged the US Steel industry. The EC Commission said world economic conditions--not imports--had caused the US industry's losses. The worldwide recession has caused a severe slump in world steel demand. Specialty steel, prized for its corrosion resistance, was not covered by an accord reached last year under which the EC agreed to limit its shipments of carbon steel to the US.

EC FORESEES COMMON MARKET FOR INVESTMENT...

...The EC should act to remove barriers to the free movement of capital between Member States to create a viable EC-wide market for risk capital, according to a recent report submitted by the Commission to Community Finance Ministers. The Commission said such a move would stimulate investment in the Community. It said it envisioned the creation of a Common Market for banking services and closer coordination of EC-based stock exchanges.