A Letter from Europe

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

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SPECIALTY STEEL -- IS FREE TRADE GOING DOWN THE DRAIN?

There has been a good deal of uproar in the press about the decision by the US Administration to afford the American industry additional protection against imports of specialty steel. The European Community strongly opposes this decision and is taking its complaints to the General Agreement on Tariffs and Trade (GATT). The EC will ask to be compensated for the loss of its US market for specialty steel. Such compensation could take the form of tariffs on selected US exports to the EC, which in turn could threaten American jobs. "Hold it," many people here say, "Europeans are making too big a fuss about this." Let me spell out the reasons why we are disturbed and dissatisfied.

One: The US Administration, as we understand it, justifies this action under the provision of the international trading rules (article XIX of the GATT) dealing with safeguard actions on imports of particular products. But this article can only be used if "any product is being imported...in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers." We hold that the causes of the plight of the US specialty steel are the US recession and the strong dollar and not imports from the Community, which amounted to less than 10% of the market.

Two: The decision has put the EC in double jeopardy. Only last month the US imposed substantial penalties, in the form of anti-dumping and countervailing duties, on imports of specialty steel from France, Germany and Britain. If these penalties were supposed to remedy any injury to the domestic industry, why do we now have new ones--imposed cumulatively with virtually prohibitive effect?

Three: There is a good deal of talk in the US about the unfair trading practices of other countries. Those who use these as an automatic justification for action have either not read the international trading rules or, if they have, do not understand them. Subsidies are not in general forbidden in the GATT, nor is dumping. What the international trading rules allow you to do is to take counter measures under certain procedures if you can show serious injury directly linked to imports. We do not think that in this case serious injury can be ascribed to imports.

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Four: In relation to certain products global quotas were imposed. The EEC quota as such is foreseen. It does not take into account traditional patterns of trade. Moreover we fear that the management of the global quota system will necessarily lead to arbitrary results. All this in our view is clearly intended to force the countries subject to the measures into negotiating orderly marketing arrangements and to abandon the exercise of their rights under the international trading rules.

Five: How can this action be reconciled with the ringing words of the Williamsburg Summit on which the US so insisted. "We commit ourselves to halt protectionism and as recovery proceeds to reverse it by dismantling trade barriers"? To claim that this action on specialty steel fulfills the Williamsburg declaration reminds one of the moment in George Orwell's 1984 when the Ministries of War are renamed Ministries of Peace.

Six: The decision on specialty steel has to be viewed against the background of events since the GATT Ministerial meeting last November when at here was some argument about the phrasing of a Ministerial declaration against protectionism. The US wanted very tight language; others demurred in the interests of plausibility. What has happened in the US since? The so-called voluntary restrictions on automobile imports were continued; the tariff on heavy motorbikes has been increased from 4.4% to 49.4%; imports of sugar from Nicaragua have been cut. The Caribbean Basin Initiative provisions opening up the American market have been watered down. The US and China have failed to reach an agreement on textiles because the US wants to limit low cost textile imports. A tough crackdown on textile imports over the last few months has shut out imports of $300 million from developing countries. And the Administration is intending to expand the scope of the Export Administration Act to limit exports from the US--a step not generally held to be compatible with its obligations under the GATT. As an old friend of mine said the other night, "if all this is a result of fighting protectionism like lions and tigers, God help us if a mood of roaring moderation ever hits Washington."

All this is background to the EC's decision to disagree strongly with the US action on specialty steel and to take it to the GATT. The decision seems to us both a dangerous step in an escalation of trade restrictions and incompatible with the spirit of Williamsburg.

Roy Denman

(Next issue in September)

COMMISSION ORDERS FURTHER CUTS IN EC STEEL CAPACITY...

...EC steelmakers must cut their production capacity by an additional 8.3 million metric tons by 1985 on top of 18.4 million tons in cuts already planned, the EC Commission said this month. The cuts are part of a Commission plan to restore profitability to Europe's ailing steel industry and to eliminate government aid to the steel sector. The Commission said the new cuts, plus other ajustments would allow the EC to meet its goal of reducing steelmaking capacity by at least 30 million tons by 1985 from the 1980 level of 169 million tons.

EC Member States will have until January 31, 1984 to plan where to make these cuts, which now total as follows: 6 million tons (11.3% of 1980 capacity) for Germany, 5.8 million tons (16.1%) for Italy; 5.3 million tons (19.7%) for France; 4.5 million tons (19.7%) for the UK; 3.1 million tons (19.4%) for Belgium; 960,000 tons (18.4%) for Luxembourg and 66,000 tons (7%) for Denmark.

EC TRADE PROPOSALS WOULD BENEFIT POOREST DEVELOPING COUNTRIES...

...The EC Commission has proposed changes for 1984 in the EC's Generalized System of Preferences (GSP) that are designed to benefit some of the world's poorest countries. The most significant improvement would be made in the agricultural sector, where the Commission proposed making six additional products from the least developed countries--bananas, pineapple, frozen strawberries, certain fruit juices, melons and watermelons--eligible for duty free access to the EC market. For all other GSP beneficiaries, the Commission proposed improvements in the preference margins on 65 other products already included in GSP.

In the industrial sector, the Commission proposed an across-the-board increase of 10% in GSP quotas and ceilings for so-called "non-sensitive" products and increases ranging from 5% to 15% in 32 quotas and 94 ceilings for "sensitive products". However, the Commission said the current far from rosy economic outlook precluded any similar action in problem areas such as steel products, shoes, leather goods and certain petrochemicals. The GSP is designed to spur economic and industrial growth in the Third World by giving exports from developing countries access to markets in industrialized countries under especially favorable trade terms.

EC AND US REACH UNDERSTANDING ON WINE RULES...

...The EC and the US have reached an understanding on wine-making practices that should facilitate future US-EC wine trade. This month the EC Commission and the US exchanged letters which expressed the will of each side to adapt its wine rules to accomodate wine-making methods used by the other. Some methods used in the US are not permitted in the EC, while some European practices are not authorized in the US. The US and the EC have been holding consultations on these differences since 1976.

The EC has reservations, for example, about certain methods used in the US for clarifying and preserving wine. However, even though these methods are forbidden under current EC rules, the EC has agreed for a transition period to accept American practices that pose no threat to human health. In its letter, the US expressed a willingness to prevent geographical designations applied to wine from eroding into generic names. Reciprocal recognition of geographical names is of great importance in international wine trade.

The exchange of letters establishes a solid framework for the growth of US-EC wine trade. To date, this trade has been somewhat lop-sided. In 1981-82, the EC sold 400 million liters of wine to the US, its leading foreign customer. However, US wine exports to the EC have been on a healthy upswing in recent years-- from 100,000 liters in 1975-76 to 7.5 million liters in 1981-82. The EC and the US plan to continue cooperation in the wine sector by working together to harmonize their labeling regulations and in investigations of fraud in wine trade.

INTERNATIONAL ACTION URGED ON PRODUCT COUNTERFEITING...

...Product and trademark counterfeiting has become such a serious problem worldwide that international action is urgently needed to cope with it, the EC Commission said recently in a report submitted to the General Agreement on Tariffs and Trade. The Commission said that it would like to rekindle debate within the GATT towards an international code to curb these practices. Trademark counterfeiting means substantial losses in sales, profits and jobs for manufacturers of genuine items and sometimes poses a serious threat to public health and safety, given the inferior quality of the counterfeit goods. It said no sector of industry or agriculture appears immune from counterfeiters. Counterfeit articles ranging from clothes to leathergoods, airplane and automotive parts, watches and medicines have been detected in dozens of countries, the Commission's report said.