

A Letter From EUROPE

From:
Roy Denman
Head of Delegation

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

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WHERE ARE WE ON TRADE?

STRONG
DOLLAR

Elections in any country are not the best time for decisions on trade. Defending the doctrines of Adam Smith against the angry cries of the populace cannot be the most agreeable of occupations. But it is not simply the fact of a US election in November which makes this a difficult time. The strength of the dollar has had a dramatic effect on the trade balance. Fred Bergsten, Director of the Institute for International Economics, likens the effect to "30 percent tax on all exports and a 30 percent subsidy of all imports". This is leading to a trade deficit this year of up to \$150 billion. Certainly this helps foreign exporters. But it is also bound to increase pressures for protection. There is also the fact that the US recovery, though formidable, has not affected all sectors equally.

The timing of a whole series of pleas for additional protection has confronted the Administration with some difficult and delicate decisions. But the picture is far from being one of unrelieved gloom. We welcome for example the stand that the Administration has taken against steel import quotas, the Wine Equity Act, and the Domestic Content Bill. We were glad that the US International Trade Commission did not find that the wine and footwear industries had been injured by imports. And in the cases of copper and steel, we welcome the fact again that the Administration rejected recommendations for increased tariffs and quotas. That decision will let stand a 1982 US-EC agreement whereby the EC agreed to limit its steel exports to the U.S. As a result of this agreement, EC steel shipments to the US fell 27% in 1983. There are some difficulties in relation to the market penetration of imports of pipes and tubes and we have said that we are willing to discuss these with dispatch.

U.S. GROUPS
CONCERNED

One interesting development in all this is the active lobbying by American producers and retailers in Washington in support of free trade and against protectionism. In recent months, for example, grain producers have lobbied vigorously against new textile import restrictions and have expressed their disquiet about a number of provisions in the Wine Equity Bill. The Retail Industry Trade Action Coalition, founded in 1984 to represent major department stores, has taken the Administration to Court over new barriers against low-cost textile imports from the third world. And copper and steel users have lobbied against ITC recommendations to reduce imports.

But as this letter goes to press, Congress is considering some vital



provisions of the Omnibus Trade Bill. These are worrying the trading partners of the US. These concerns center on two main areas.

SECTORAL
APPROACH
CHALLENGED

The first is the concept as embodied in the Wine Equity Bill of a sectoral approach. This would require the Administration to establish an inventory of barriers to US exports in one particular sector - that of wine - then after consultation with Congress to take action. But the whole of the liberalisation of post-war trade has been based on the concept of overall reciprocity. The tariff negotiations of the post-war era would not have been possible if everyone had insisted on direct reciprocity in each particular sector. Supposing that the European Community were to adopt a similar approach for areas where there is a trade imbalance in favour of the United States. I am not of course saying the Community has any such intention. But I make the point simply to underline the danger of the United States setting such a precedent.

BAD
PRECEDENTS

The second main area is that of provisions which would in fact rewrite unilaterally the international trading rules. For example, there is in the latest Senate version of the Omnibus Trade Bill a section which would amend present US laws on anti-dumping and countervailing duties to extend the definition of an "industry" to include raw material producers. If this amendment were adopted it would set very dangerous precedents. EC producers of basic agricultural products would be able to join with producers of the finished products to claim injury from imports of the latter from the United States. If this precedent were in logic extended to trade in industrial products the end result would be new and major restrictions on world trade. The same consideration applies to the provisions in the latest version of the bill, which would deal with "upstream subsidization" and "downstream dumping"--definitions of dumping and subsidies much broader than in present GATT codes on Anti-dumping, Subsidies and Countervailing Duties to which the US is a party.

Either of these roads, sectoral reciprocity or simply rewriting unilaterally the international trading rules would be bound to produce pressure on other trading partners to take a similar line. This could lead to a major unravelling of the trade liberalisation achieved since the war and to fundamental damage to the post-war trading system on which the prosperity of the West has depended for the last thirty years.

Fifty years ago the Congress of the United States passed into law the Reciprocal Trade Agreements Act - which led the world into a historic era of dismantling trade barriers. Today with a fifth of US industrial production and two-thirds of its wheat exported the United States has an even bigger stake than fifty years ago in the open world trading system.

Ray Janner

WINDOW ON THE EUROPEAN COMMUNITY

EC MINISTERS APPROVE FISHING ACCORD WITH U.S.

The EC's Council of Ministers, the Community's top decision-making body, has approved a US-EC agreement that would give Europe's commercial fishermen continued access to US waters in exchange for technical assistance to the US fishing industry. The five-year accord would allow EC fishing vessels to continue operating in the 200-mile "economic zone" off both US coasts. Vessels from three EC countries--Germany, Italy and the Netherlands--presently fish in US waters.

The agreement, which was initialed by US and EC officials in June, has been submitted to the US Congress for approval. The pact replaces the EC's first fisheries accord with the US, which expired earlier this year.

As part of the new agreement, the EC agreed to share its expertise in applying modern fishing methods, to facilitate the transfer of new fish harvesting technologies to the US, to cooperate in increasing US fisheries exports to Europe and to foster joint venture fishing arrangements between the US and EC. The accord recognizes the importance both sides attach to the conservation and rational management of US fish stocks.

The EC's original fishing accord with the US, signed in 1977, was the EC's first fishing agreement with a non-EC country. The EC has since concluded a number of bilateral fishing agreements, including reciprocal fishing rights pacts with Norway, Sweden and the Faeroes. Community vessels have the right to fish in Canadian waters in exchange for tariff reductions on some Canadian fish

exports to the EC. The EC has also negotiated agreements with several developing countries, including Senegal, Guinea and Guinea-Bissau. In exchange for fishing rights in their waters, the Community helps these countries build up their fishing industries.

EUROPEAN PARLIAMENT CALLS FOR TIGHTER CONTROLS ON HAZARDOUS CARGOES

The European Parliament this month called for stricter controls on the transport of hazardous materials, following the sinking of the French freighter "Mont Louis" and its cargo of radioactive uranium hexafluoride off the coast of Belgium on August 25. In its September 13 resolution, the Parliament, the EC's elected assembly, declared that the accident showed that national laws alone were inadequate to afford protection against the potential environmental dangers posed by the international shipment of radioactive and hazardous substances. It asked the EC Commission, the EC's executive arm, to propose EC-wide rules governing such shipments. It also called on EC member countries to develop strict safeguards to prevent and contain accidents involving hazardous cargoes.

The Mont Louis incident heightened public concern in Europe and elsewhere over the potential dangers involved in transporting hazardous wastes. The Mont Louis was bound from France to the USSR, where its cargo was to be enriched for fuel use. The freighter sank after it collided with a passenger ferry in the North Sea near the Belgian port of Ostend. High seas and murky waters hampered divers from recovering the freighter's cargo immediately. However, no radioactive material was thought to have leaked from any of the storage drums on board.

EC Environment Commissioner Karl-Heinz Narjes told the Parliament that there should be EC laws governing transport of hazardous substances and that they should apply to all countries using the North Sea. However, he noted that some EC countries dispute the Commission's authority to regulate maritime shipment of hazardous and radioactive materials.

COMMISSION PROPOSES TAX INITIATIVES TO SPUR INVESTMENT GROWTH

The EC Commission recently proposed two tax law initiatives designed to make it easier for EC-based companies to finance productive investments. The initiatives are part of a Commission effort to stimulate the kind of investment growth seen vital to Europe's economic recovery.

The first of these measures would standardize the so-called "carry-forward" and "carry-back" provisions of business tax laws in the EC Member States, which allow European companies to use financial losses in a given year to offset their tax liability in a past or future year. The Commission said its proposal would create an EC standard for such provisions that was as liberal as possible without encouraging evasion or abuse or unduly reducing the tax revenues of Member States.

The proposed rules would allow EC firms to carry-forward business losses into any subsequent tax year. It would also allow them to carry-back losses to either of the two previous financial years. The Commission said the latter provision would be especially valuable to an affected company because it would result in a tax refund that would improve the firm's financial position. Both the carry-forward and carry-back provisions would create a better tax climate for EC businesses, thereby encouraging investment and increasing their competitiveness in world markets, the Commission said.

Present time limits applied to the

carry-forward and carry-back of losses for tax purposes vary widely among EC Member States. The Commission's proposals would bring the time limits applied in all Member States into line with the most liberal of the existing national statutes.

The second proposal would allow EC countries to reduce or abolish duties charged on the raising of capital. EC companies presently must pay a 1% capital duty when they form or increase capital. Although the Commission said it would prefer to eliminate capital duties entirely, it said outright abolition of these duties was not presently feasible. However, the Commission proposed giving EC countries the option to fix their capital duties at between zero and 1%.

COUNCIL APPROVES NEW SYSTEM FOR TRADE COMPLAINTS

EC Foreign Ministers this month enacted legislation that would empower the EC Commission to take quick, effective action to counter a wide range of unfair trading practices. The new rules would give the Commission powers similar to those given the US Government by Section 301 of the US Trade Act. Under the measure, an EC industry could bring directly to the Commission complaints involving unfair trade practices used by non-EC countries. The Commission would determine the complaint's merits and decide within a set time limit what, if any, action to pursue.

The new system, designed to comply with international trade laws, would allow the Commission to act not only against unfair practices like dumping-- i.e. exporting products at less than fair market value--and illegal subsidies, but also against unlawful restrictions on the export of raw materials and export credit agreement violations.

The measure had one tentative approval in April, but its final adoption was contingent on the enactment of a package of 15 proposals for removing technical barriers to intra-EC trade.