A Letter From EUROPE

No. 17
October 29, 1984

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

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WHERE ARE WE ON TRADE (PART 2)

In our last newsletter I expressed a good deal of concern about the General Trade Bill then being considered by Congress. Congress has now adjourned and the US Trade Act of 1984 has been sent to the President for signature. The EC feels about the final version of the bill like a man who thought he was going to lose four limbs but ended up losing only a few fingers. We welcome the help which the Administration and a number of leading Congressmen gave in eliminating several controversial provisions that would have thrown a wrench into the works of international trade and could have backfired by hurting US exports. However, the EC still has concerns over some parts of the bill, such as those relating to wine trade and some provisions on subsidies, and will be discussing those with the US in the General Agreement on Tariffs and Trade (GATT).

NEW EC TRADE LAW

For its part the Community adopted recently a trade law that strengthens its ability to respond quickly and effectively to unfair trade practices that injure Community industries. This new regulation took effect on September 23. It has been under study for a long time and was in no sense conceived in any spirit of retaliation for either existing points of dispute or the developing Trade Bill then before Congress.

In fact the policy gives the EC and the Commission powers similar to those of the US Administration under Section 301 of the 1974 Trade Act which allows the President to take action against governments whose policies unfairly damage US trade. Similarly our new law applies to trade practices by third countries that are incompatible with international trading rules. Procedures are provided in our new law for investigating complaints and for applying countermeasures when practices are found harming Community industries on either internal or external markets. These new measures reflect the wishes of Community leaders who at a June 1982 summit meeting called on the European Community to "defend vigorously its legitimate interests" and to manage trade policy "with such speed and efficiency as its trading partners".

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So as we approach the end of the year the situation on the trade front across the Atlantic, while not ideal, is not as bad as it might have been. But I detect some mutterings on this side of the Atlantic about agriculture. Two points of dispute are beginning to emerge. The first concerns agricultural export subsidies. Under discussion in the

Agriculture Committee of the GATT in Geneva is language which would permit next year the serious exploration of new and tougher disciplines for international trade in agricultural products. Some concern has been voiced here that the Community is backing away from an earlier commitment to consider the possible basic prohibition of all export subsidies with agreed exceptions. We had entered into no commitment to follow this exclusive line. Discussion is going on and we naturally hope that a satisfactory compromise can be reached. But three points need to be made at this stage. The first is that most countries support agriculture. In 1983, the US spent $28.3 billion on federal farm price supports, (including PIK) compared with EC expenditures that year of $15 billion. Secondly, subsidies are only one way of supporting farm prices. Restrictions on imports, even export credits, need to be taken into account. It should be recalled that in 1955, years before the great US export boom of the 1970s, the US secured a waiver from the GATT (which still remains in effect) to ensure that its own domestic support programmes were not affected by GATT rules. Thus, a comprehensive and balanced approach is needed to guarantee a realistic study of government intervention in agricultural trade.

FARM PRICE SUPPORTS

The third point is that we in the Community have already taken - and aim to take - difficult and far-reaching decisions to cut agricultural subsidies. In March of this year the Council of Ministers agreed on cuts in agricultural support which resulted in cuts of something like 3 million tons or more of dairy products. This led to angry demonstrations by farmers across the Community. And we have made it clear that next time, that is early next year, we are going to have a go at support for grain production. So the Community is not just arguing, it is taking and will be taking some real and painful steps to limit subsidies to agricultural production.

The second agricultural issue on which there recently has been some public comment on this side of the Atlantic are the discussions in Geneva on <u>corn gluten</u>. Here we announced earlier in the year that in order to avoid putting at risk our programme of cutting support we needed to look at imports of competing products. And imports of corn gluten, which compete with cereal consumption in the Community, have soared from 700,000 tons in 1976 to 3.4 million tons last year. What we have proposed is not to slash these imports but to stabilise them under the existing GATT procedures. These provide that even though free entry may have been guaranteed in a previous negotiation this concession can always be renegotiated subject to adequate compensation. So what we are trying to do in Geneva is to ascertain the loss of trade that would result from what we propose and to fix on appropriate compensation. And here we have said that although GATT practice has been to establish for these purposes a level of trade which would be the average of the last three years (amounting in this case to 2.9 million tons) we are prepared to fix a duty free quota that goes substantially higher than this - equivalent to the best year ever achieved by the US and to compensate for any trade which would then be subject to duty over and above this level. This is a proposal well within the spirit and letter of the international trading rules. We hope we can pursue this matter on these lines and come to a reasonable agreement.

CORN GLUTEN

Roy Denman

'INDOW ON THE EUROPEAN COMMUNITY

MINISTERS HEAD OFF EC CASH SHORTFALL

The EC's Member States agreed in principle earlier this month to chip in extra cash to keep the EC in the black through the end of 1984. The plan to avert a 1984 funding shortfall calls for the Member States to contribute a total of $750 million in new funds to the Community's coffers. The hard-won agreement was concluded by EC Foreign Ministers at an October 2-3 meeting. The agreement to raise the additional cash came at the end of lengthy negotiations and followed repeated warnings from the EC Commission, the Community's executive arm, that the EC would run out of cash in November if its leaders failed to act. Although Britain said its acceptance of the agreement was contingent on the approval of guidelines for curbing EC spending, the European Parliament last week endorsed a 1984 supplemental budget based on the plan.

The threat of a cash crunch had prompted the Commission to withhold part of the advance farm price support payments it usually makes to EC members. The EC is prohibited by law from deficit spending.

The EC derives the bulk of its income from the value-added taxes (VAT) collected in Member States. However, present law limits the amount of this tax money the EC may claim as its own to 1% of the VAT base. The EC has thus found itself increasingly strapped for cash in recent years, caught between the ceiling on its VAT revenues and the increasing outlays needed to support farm prices and to pay for new EC programs aimed at spurring high tech industry and creating jobs. Although EC leaders agreed in June to raise the ceiling on EC VAT revenues to 1.4% of the base, the new agreement will not take effect before 1986. The EC is expected to face another cash shortfall in 1985.

ENLARGEMENT NEGOTIATIONS PICK UP THEIR PACE

Negotiations are likely to continue at a feverish pace in coming weeks over the terms under which Spain and Portugal will become members of the European Community. All 10 EC Member States have repeatedly confirmed their political will to see Spain and Portugal enter the Community. However, it has taken some time for them to make many of the politically difficult decisions required to enable the EC to accommodate its two prospective Iberian members. The EC now finds itself faced with a looming deadline for completion of the entry talks.

Last week EC Foreign Ministers logged considerable progress in the negotiations process by agreeing amongst themselves on a "mini-package" of measures relating to crucial aspects of the entry talks. These included the legal status of Iberian guest workers within the EC, the extension of EC farm programs to Iberian olive oil producers and a proposal for phasing out Spain's own relatively high industrial product customs duties to pave the way for Spanish participation in the EC customs union. Still unresolved are other politically sensitive issues, such as Spanish fishing rights in EC waters and the means by which Iberian winegrowers will be incorporated into the EC Common Agricultural Policy (CAP). Olive oil and wine emerged as tricky problems early in the accession talks because Spanish and Portuguese accession will substantially increase EC surpluses of these commodities.

EC Ministers now hope to have fishing

rights, wine and other contentious issues sorted out by the end of the year to allow adequate time for the ratification of Spain and Portugal's accession treaties by the national parliaments of all 12 countries concerned. Spain and Portugal are scheduled to become EC members on January 1, 1986. The EC has committed itself to securing Spain and Portugal's entry as of that date.

EC MINISTERS MEET WITH LATIN AMERICAN COUNTERPARTS IN SAN JOSE

EC Foreign Ministers, in meetings last month with many of their Latin American counterparts, pledged closer political and economic cooperation with Central America and affirmed their support for the peace efforts of the so-called Contadora Group. The September 28-29 meetings in the Costa Rican capital of San Jose brought together for the first time the Foreign Ministers of the EC's 10 Member States and prospective members Spain and Portugal with their opposite numbers from the Central American Common Market (CACM) states and the four Contadora group nations. The members of the Contadora group--Venezuela, Colombia, Panama and Mexico--have been seeking a regional agreement to secure peace and cooperation in Central America and recently presented a draft treaty to that end. The CACM nations are Guatemala, El Salvador, Honduras, Costa Rica and Nicaragua.

In a joint communique issued after their meeting, the European Ministers confirmed their commitment to the objectives of peace, democracy, security, political stability and economic development in Central America. They also denounced the use of arms to settle political conflicts and agreed that solutions to the region's problems should come from the region itself. In addition to aid already provided by individual European states, the Ministers also pledged to provide EC technical and financial assistance to Central America for agricultural, agro-industrial and rural development projects. They said they would give priority to assistance projects that would benefit the entire region. In 1982, EC aid to Central America totaled about $81 million.

The communique also expressed the conviction of both sides that the unprecedented San Jose meetings constituted a first step towards increasing inter-regional cooperation between Europe and Central America. Both the European and Central American Ministers agreed to begin talks on an inter-regional cooperation agreement similar to the accord that now links the EC with the Association of Southeast Asian Nations (ASEAN). That agreement provides a general legal framework for EC-ASEAN cooperation in such fields as job training, trade and economic development.

ETHIOPIA GETS MORE FOOD AID FROM EC

The EC Commission this month granted an additional $2.5 million worth of food aid to Ethiopia, where a prolonged drought has led to famine in many rural regions. The new aid package consists of 10,000 metric tons of grain, 350 tons of milk powder, 250 tons of butteroil and 200 tons of vegetable oils. The aid, which will be delivered within the next two months, will be channeled through various private relief organizations operating feeding programs in the most seriously drought-stricken areas of the country. The new aid package is expected to provide a basic daily ration for some 220,000 people for a period of three months.

Since December 1983 the Community has provided roughly $29.2 million worth of food aid to Ethiopia, including 116,880 tons of grain. EC Member States have individually contributed a total of 30,000 tons of grain. The EC has also provided $4.2 million in emergency aid to finance the cost of food aid distribution inside Ethiopia.