

# A Letter From EUROPE

From:  
Roy Denman  
Head of Delegation

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

No. 18  
November 28, 1984

## The TPF Factor

PLAYING  
BY THE  
RULES

Through the swirling mists of discussion about international trade a new and ominous shape has slowly emerged, the TPF factor. Is this some cosmic ray machine which enfeebles American manufacturers while stimulating foreigners to frenzied activity? The truth is more modest. TPF stands for Tilted Playing Field - a conviction that honest Americans are playing by the rules of the game while cunning foreigners are not. I come from a country where traditionally a lot of importance has been attached to playing the game. Every British schoolboy is taught the famous lines of Sir Henry Newbolt:

"The sand of the desert is sodden red,  
Red with the wreck of a square that broke;  
The gatling's jammed and the colonel dead,  
And the regiment blind with the dust and smoke.  
The river of death has brimmed its banks  
And England's far and honour a name,  
But the voice of a schoolboy rallies the ranks:  
'Play up! play up! and play the game!'"

So who are these cunning foreigners who are not playing the game or alternatively are profiting from the fact that the rules are stacked against the United States?

HOGWASH

Two points need to be made at this stage. The first is that this conviction is very largely hogwash. In a world where the General Agreement on Tariffs and Trade numbers some ninety members there are bound to be arguments from time to time about someone's trading practices. But to suggest that the rules which have been laboriously hammered out over the years in free and open international discussion are stacked against any particular country just do not hold water. The General Agreement itself, the Codes on subsidies, on Government purchasing, on Customs valuation, all these were freely argued out; no-one was compelled to sign them

But the TPF conviction that any one country is being discriminated against by the rules or those elsewhere who are not playing by them is a dangerous one. Deep down in the

consciousness of most countries is a feeling that what one does oneself is fair trade and what the other fellow does is unfair. But this universal human tendency is greatly strengthened in periods when a currency is exceptionally highly valued thus encouraging imports and restraining exports. Faced with a flood of imports coming in swamping home production, most businessmen anywhere will not turn to textbooks outlining exchange rate theories but will believe that something is wrong with the international trading system.

STRONG  
DOLLAR

This was the case in Europe for example in 1980 when the dollar was weak and American exports of synthetic textiles and chemicals to European markets were booming. There was pressure then - which we were able largely to resist - for measures against imports from the United States. The exchange rate situation now has been reversed. And if the budget deficit continues on a major scale, interest rates and the dollar remain high and the trade deficit - already at the unparalleled level of some \$130 billion in 1984 - continues to balloon, there will be pressures in the next Congress for unilateral protectionist measures.

CLEAR  
RULES

Mostly the feeling of unfairness concentrates on dumping and subsidies. And here the international trading rules are clear. Dumping is not in itself forbidden - but if it can be shown to cause injury countermeasures are allowed. Agricultural export subsidies are allowed provided that they are not used to take more than an equitable share of world trade. Industrial export subsidies - with some carefully drawn exceptions for export credits - are not permitted; industrial subsidies in general are recognised as contributing in many cases to social and economic policy objectives but where it can be established that these are causing injury elsewhere consultation and possible countermeasures are envisaged.

These rules are the result of much negotiation. If anyone has a legitimate grievance they can be used to secure redress. The rules are not cast in concrete and it is always open to any contracting party to seek to reopen them. But this could only be done in the context of a major trade negotiation where the results would be appraised as a whole - not just in some particular sector convenient to one trading partner wanting a change. In the meantime rules may not always be convenient in the same sense that no citizen in any country always finds that the law in his land always allows him to win his case. But like the law the international trading rules are the only rules we have. And when times are hard it is all the more necessary to stick to them. Because any attempt unilaterally by a major trading partner to rewrite them would simply result in retaliation from others and in an unravelling of the one world trading system.

So let us give a decent burial to the Tilted Playing Field

TPF - RIP

*Ray Janner*

# WINDOW ON THE EUROPEAN COMMUNITY

---

## JOBLESSNESS TO REMAIN PROBLEM DESPITE RECOVERY

An economic recovery is under way in the EC, but unemployment nonetheless will remain a growing problem at least through 1985, the EC Commission said in its annual economic report for 1984-85. The Commission said that the Community's economy is expected to grow 2.3% in 1985, up from the 2.2% growth rate expected in 1984. By contrast, economic growth in the EC's 10 Member States averaged only 0.6% in 1982 and 0.9% in 1983. Inflation in the Community is expected to continue to moderate next year, averaging only 4.1%, compared with 5% in 1984 and down from 11% in 1980.

On the employment front, the report recommended concerted EC action to reverse the growth in Europe's jobless rate. The report said unemployment in the EC will average 11.5% in 1985, up from 11% this year and 10.4% in 1983. Among EC members, employment levels are expected to increase between 1983 and 1985 only in Denmark, the UK and Italy. With the election of a new European Parliament last June and with a new Commission poised to take office in January, "conditions are now particularly appropriate for intensifying a collective effort to turn employment trends in a more positive direction," the report said.

Unemployment problems have been particularly acute in recent years among Europe's young people and women. Long term unemployment also has increased substantially. Although millions of jobs that have been created in the service sector in recent years have partly offset job losses in industry, many of the newly created jobs have been in the public sector. The Commission said this trend towards employment growth in the public sector cannot be sustained

under present budget constraints. Furthermore, the Commission said EC members should lighten tax burdens that discourage businesses from expanding production and creating jobs. It said these burdens included rising social security charges on employers and social security taxes on employees that increase pressure in wage negotiations for higher pre-tax salaries. It also recommended re-evaluating regulatory requirements that unnecessarily hamper business.

## EC TO SIGN NEW TRADE AND AID PACT WITH AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES

Representatives of the EC and 66 African, Caribbean and Pacific (ACP) countries will meet in the Togolese capital of Lomé on December 8 to sign the third Lomé, a trade and aid pact that will be the centerpiece of EC policy towards the Third World until 1990. The new pact will guarantee the ACP countries a total of \$6.4 billion in EC financial assistance over the pact's five-year life, an increase in real terms of 10% over the amount of financial assistance they received under Lomé, which expires early next year.

The Lomé III accord contains for the first time language pledging both the EC and ACP countries to respect human rights. As in the past, the new pact obligates the EC to extend duty-free entry for ACP exports to the Community and commits the EC to helping the ACP nations protect their export earnings from shifts in world commodity prices.

The three successive Lomé Conventions, the first signed in 1975, have been contractual arrangements between the EC and the Third World. These contracts have given the ACP countries a more secure basis on which to plan their economies and have allowed them to set

their own economic development priorities.

#### EC PLANS ECU BOND ISSUE IN U.S. MARKET

The EC has officially notified the U.S. Securities and Exchange Commission that it plans to sell about \$110 million worth of 12-year bonds in the U.S. market. The bonds would be denominated in ECU, or European Currency Units and would be the first ECU-denominated securities ever issued in the U.S. The EC also believes that they would be the first non-dollar denominated U.S. public offering. The offering, which is subject to SEC approval, is expected to be made in late November or early December through a group of underwriters headed by the First Boston Corp.; Bear, Stearns & Co.; and Morgan Stanley & Co. Inc. Proceeds from the \$150 million ECU offering will be used to provide loans for investment projects in EC Member States.

The ECU is a monetary unit representing a "basket" of the national currencies of all 10 EC member countries. Each currency's value within the ECU is weighted according to the relative size of the nation's economy it represents. At present exchange rates the ECU is worth about \$0.74. Because it is based on a basket of 10 currencies, the ECU is generally less vulnerable to exchange rate fluctuations than are the individual currencies that compose it.

In 1983, the Community raised the equivalent of \$9.33 billion on world capital markets to finance investments and to help Member States with balance of payment problems. Of that total, 7.6% of these borrowings were denominated in ECU.

#### EC HELPS LAUNCH EUROPEAN MUSIC YEAR CAMPAIGN

The EC, in conjunction with the Council of Europe, this month opened its campaign to promote 1985 as "European Music Year,"

an initiative that will link European musicians and composers with the listening public in 23 countries. Its goals are to promote musical training among both amateurs and professionals, encourage excellence in performance and composition and to make music of all kinds accessible to all segments of society.

The EC Commission said the campaign's \$540,000 budget would go towards financing 30 multinational music projects. About 850 additional projects are planned by individual participating nations. The Commission called the planned festivities "an expression of European cultural unity in action." It said European broadcasting networks had expressed keen interest in the European Music Year offerings and planned special programs based on the upcoming musical events.

#### EC PROPOSES BAN ON PCB'S

The EC Commission has proposed a Europe-wide ban on the production and sale of polychlorinated biphenyls (PCB's) and polychlorinated terphenyls (PCT's), saying that less severe measures had failed to reduce the amounts of these carcinogens found in the environment. The compounds are synthetic substances whose stability and heat resistance initially won them widespread use as hydraulic fluids and as insulators in such electrical devices as transformers. However, scientific findings labelling both compounds as potential health threats prompted the EC in 1976 to adopt two directives restricting their use. The first directive established rules for safe disposal of PCB wastes. The second barred most uses of the two compounds, except in closed system devices such as transformers. The newly proposed ban would prohibit most remaining uses of the compounds.

The Commission said the ban was needed because of new scientific evidence that previous PCB use restrictions had failed to lower PCB residues in foodstuffs and that mother's milk in many parts of the EC contained unacceptable residue levels.