A

Letter From

EUROPE

From:
Roy Denman
Head of Delegation

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from its Delegation in Washington

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IS IT TIME FOR BARBED WIRE AT THE PORTS?

The autumn is not starting well anywhere. In Europe unemployment remains persistently high despite a slightly improved outlook for growth. Among the developing countries the debt problem has again reared its head. The dollar remains strong, the U.S. trade deficit has grown and some sectors are being squeezed by imports.

So political solutions are now being sought for economic problems. Protectionist bills flourish, foreigners are blamed and the ghost of Smoot-Hawley rides again. The United States is not the only country where these pressures are being felt. But let us look at what would happen if only some of the bills before Congress to restrict imports were enacted.

Take the effect on consumer prices. The President recently pointed out that the quotas on shoe imports which he turned down would have cost the American consumer nearly $3 billion. I made this point recently to an old American friend who rang up from the Midwest. He was touched by my solicitude for the American consumer. The tears, he said, nearly came into his eyes. But he reckoned that the American consumer could do without help from Europe. What other disadvantages were there?

The biggest disadvantage is surely the effect retaliation overseas would have on American exports and the world trading system. Despite the high value of the dollar total American exports held up pretty well from 1982 ($202 billion) to 1984 ($218 billion). One-fifth of American industrial production is exported, forty percent of American farmland is devoted to exports. In the five years from 1980, despite the current trade deficit, 7.5 million new jobs have been found for Americans. If widespread import restrictions were imposed, US export industries would all suffer from higher import prices and costs. But more important, they would suffer because there would be retaliation. What would happen to American exports and the jobs they represent if foreigners were to retaliate - as under the international trading rules anyone is entitled to - in return for US import restrictions?

This is what happened with the Smoot-Hawley tariff in 1930 - in President Reagan's words "the most destructive trade bill in history". And how can we expect developing countries to earn the foreign exchange they need to service their debts if their exports are barred from the markets of the main industrialized countries? Do we want to push them into a debt explosion which would force banks to close their doors around the industrialized world?

The US trade deficit is to a substantial extent the product of the complex relationship between the US budget deficit, the sharper recovery in the US than the rest of the world, debt problems, high interest rates and the high dollar. We have all been both helped and hindered by aspects of each of these elements. The high dollar, for example, has helped European exports to the US but high interest rates have impaired our growth. The fundamental point is that the problem will only be solved by treating the cause, not the symptoms. For dealing with the trade deficit by import restrictions here and there is rather like throwing a patient with a high temperature into a cold bath. It is apt to make the problem worse.

So what, my friend from the Midwest said, can we do? I said I thought the President's decision not to impose footwear quotas and to declare his intention of vetoing protectionist legislation was a wise and courageous one. "For ever?" said my friend. "Haven't you heard of politics? Are we the only guys going to grin and bear it?" I reminded him that others have made some courageous efforts too. In the Community we have lost one million jobs in textiles over the last ten years; imports from developing countries have steadily increased. But we are not contemplating any additional restrictions on imports.

"But", he said, "what about unfair trade practices elsewhere?" Sure, where anyone can demonstrate unfair trade practices, action can be considered. In the absence of the millenium there are bound to be unfair trade practices distributed like wickedness impartially over the world's surface. But the danger is the belief everywhere that what one does oneself is fair and what the other fellow does - even if he is only producing a cheaper and better product - is unfair. So when unfair trade practices are alleged it is important that they are dealt with under the international trading rules as codified in the General Agreement on Tariffs and Trade (GATT). These rules may be imperfect but like the law they are the only rules we have.

The solutions are not easy. But the lessons are clear. Most commentators agree that action on the US budget deficit is needed. Europe needs to tackle its unemployment. Japan needs to open its market more to imports of manufactured goods. Only by tackling our deep-seated problems together and avoiding inward-looking quick fixes can we keep the one world trading system and its financial counterpart. These over the last thirty years have been the basis of the biggest expansion in prosperity in the recorded history of the West.

Roy Denman

E.C., JAPAN PLAN MORE OPEN TRADE

Japanese Prime Minister Yasuhiro Nakasone met with E.C. officials in Brussels on July 19 for discussions on Japan's trade surplus with the E.C., the question of access to Japanese markets and the problems of the world economy. Japan had a 15.5 billion European Currency Unit, or ECU, ($12.2 billion) trade surplus with the E.C. in 1984, up from 13.3 billion ECU in 1983, and E.C. leaders recently called on Japan to increase "significantly and continuously" its imports of European goods.

A Japanese program on tariffs announced June 25 was welcomed by E.C. Commissioner for External Affairs Willy De Clercq, who nonetheless noted at the time that the tariff changes were unlikely to bring much relief and were "only one among many difficulties" that needed to be resolved.

During the talks with Commission President Jacques Delors and other officials, Nakasone unveiled a three-year action program for opening Japanese markets that addressed some of these "many difficulties," including technical norms, procedural harmonization, liberalization of financial markets and access to public markets. Japan must enter a new phase of development, Nakasone said, by abandoning its centralized system and by opening up to the exterior world. "Japan, whose economy represents 10 percent of the world economy, cannot remain in a corner of the Far East," he said. "It cannot close its eyes, either to its international duties or the exercise of its responsibilities."

While welcoming these remarks and affirming his confidence in Nakasone's good faith, Delors pointed out that the E.C. was arriving at the end of a period of restructuring its productive capacity, during which it had maintained an open economy. The different "rhythms of development" of Japan and the Community should coincide, he noted, if further trade difficulties were to be avoided.

Delors and Nakasone also discussed the sharing of responsibility for the world economy, next year's Tokyo summit meeting, and North-South relations. Delors emphasized that E.C.-Japanese relations could be expected to be conducted in a better spirit following the talks, and that more formalized and effective work methods were to be implemented. A possible meeting this October between high-level E.C. and Japanese officials, followed by a Delors visit to Tokyo in January 1986, will study how much the relationship has actually improved and what the effect of the Japanese "action program" has been.

STEEL TRADE AGREEMENT REACHED

U.S. and E.C. negotiators crossed another hurdle in the field of steel trade this summer, reaching agreement on August 6 on ceilings for exports of 11 categories of E.C. steel to the United States. The agreement, which E.C. Commissioner for External Relations Willy De Clercq called "an equitable accord," sets a total export ceiling for the remaining five months of 1985 of 197,917 net tons for some 16 "consultation products" that were not subject to formal quotas under the 1982 U.S.-E.C. Carbon Steel Arrangement.

Agreement was formally reached after E.C. Industry Ministers approved the internal burden sharing for both the consultation products and the so-called "oil country tubular goods," the latter of which had not been settled since the arrangement on pipes and tubes was signed in January. A settlement allowing an additional 100,000 tons of line pipe beyond the 1985 quota limit, to be used in the construction of the All American Pipeline, was approved earlier this summer.

E.C. URGES NEW RULES ON CONSUMER PROTECTION

Consumer protection has been a basic part of the fabric of E.C. policy since the E.C. adopted its first consumer-information and protection program in 1975. That program distinguished five basic consumer rights: the right to safeguards for health and safety, the right to economic justice, the right to redress of damages, the right to information and education and the right to consultation.

A number of steps have been taken since then to implement these rights, and a second consumer-protection program approved in 1981 widened and deepened the development of a common European policy. Progress has lagged, however, and the Commission recently introduced proposals to give new impetus to the drive for a more effective and complete consumer policy.

Special emphasis is being given in the Commission's new program to improved child safety and to better product-safety legislation. Measures are also being proposed to protect the consumer's economic interests—against unfair contract terms, for instance—as well as on sales through videotex systems and electronic fund transfers. The Commission is also studying the operation of guarantees and warranties on goods bought in other member states, and is planning to publish buying guides for consumers shopping in E.C. states other than their own.

A central aim of the new proposals is to allow consumers to benefit more fully from the Common Market by making it easier for them to buy goods in other member states, to have them repaired as if they were purchased domestically and to see any complaints handled effectively. Consumers also need protection against unfair contract terms, which may be in an unfamiliar language.

In an effort to start consumer education at an early age, the Commission also is proposing to introduce it gradually into primary and secondary schools. This would not mean necessarily a new series of courses, but rather the incorporation of a "consumer-awareness" approach into existing subjects.

All of the Commission's proposals, if adopted according to the proposed schedule, would come into effect before the end of the decade.

E.C. PUBLISHES ECONOMIC FORECASTS FOR 1985, 1986

The Commission recently completed a new forecast of economic activity in the E.C. that anticipates moderate growth this year, with falling inflation and reduced exports. The forecast, which includes a revision of estimates for 1984 and 1985 as well as a new outlook for 1986, predicts GDP growth in volume terms of about 2.3 percent in both 1985 and 1986, slightly faster than the 2.1 percent recorded in 1984. Inflation is expected to continue decelerating, with the price deflator of private consumption forecast to decline from 6.3 percent in 1984 to 5.4 percent this year and to 4.4 percent in 1986.

Employment should expand modestly over the forecast period, sufficient only to halt the rate of increase in unemployment, which is expected to rise from 10.9 percent in 1984 to 11.2 percent in 1985 and 11.6 percent in 1986.

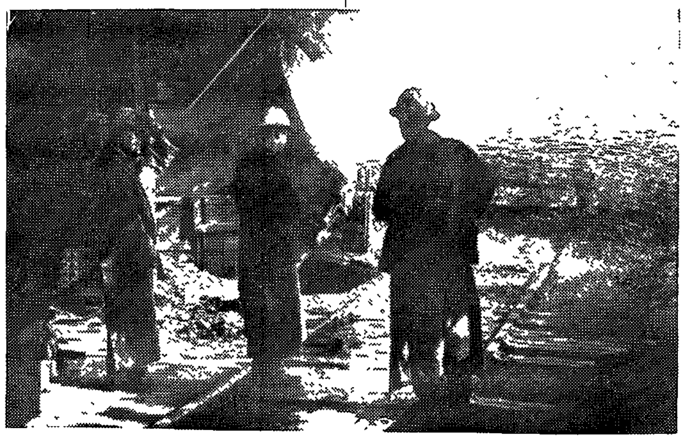
As the growth of world trade slows from the exceptional expansion of 1984, the stimulus to growth from exports is expected to weaken somewhat, but gradually strengthening internal demand should offset lowered export earnings. Investment is expected to recover slightly (2.9 percent in 1986 against 2.2 percent in 1985 and 2.3 percent in 1984), and private consumption is likely to expand by 1.5 percent this year and 2.3 percent in 1986. Per-capita wages are expected to grow in nominal terms by 6.7 percent in 1985 and by just under 6 percent in 1986.

The current year again should see an increase in the E.C.'s trade surplus to just under $16 billion, as exporters benefit from the effects of a strong dollar on their competitive positions. A further increase to about $26 billion is expected in 1986, attributable largely to a marked improvement in the terms of trade. The E.C.'s traditional deficit on the invisibles account is predicted to continue increasing, but the surplus on current transactions with the rest of the world is forecast to increase from 0.1 percent of GDP last year to 0.4 percent in 1985 and to reach 0.7 percent in 1986.

THE FUTURE FOR STEEL IN THE E.C.

E.C. leaders have been focusing intensively in recent months on the future of Europe's declining steel industry, as the December 31 deadline for ending the current "crisis plan" approaches.

Faced with shrinking world demand and rising production costs, the E.C. in 1980 undertook an ambitious plan—known as the "Davignon Plan" —to restructure and modernize Europe's steel sector and bring it in line with the economic realities of the 1980s. The plan provided a system of production quotas and subsidies to allow the European steel industry to adjust smoothly and effectively to changing market conditions, with the aim of creating a streamlined and profitable steel industry by 1986.



The E.C. Commission's plan to modernize the Community's steel industry still calls for a halt to government subsidies by the end of 1985.

With the most acute phase of the crisis now at an end, the Commission outlined to the Council in mid-July its plans for a transition back to free and competitive market conditions. While steel production capacity has been cut back between 30 and 35 million tons since 1980 (an achievement which will make most European steelmakers viable from 1966 on), the outlook for world steel markets remains gloomy. With enormous excess capacities worldwide, markets will not be stabilized for several more years. Furthermore, the process of restructuring in the E.C. is not complete; some 20 million tons of excess capacity still remains to be cut.

The Commission, therefore, is planning a two-stage transition period. For the first 18 to 24 months after the end of the current plan, market restraint measures would be relaxed, and only a minimum of restraints would be retained for the following 12 to 18 months, until normal market conditions were restored. All operating subsidies will be discontinued on schedule at the end of this year, but aid would be allowed for research and development, environment protection and plant-closure costs.

Other measures designed to lessen the social costs of restructuring are also being proposed. Almost 7 billion ECU have been spent in recent years to retrain steelworkers, to cofinance early retirement and to create alternative employment. Such programs will receive even more emphasis from the Commission in the years ahead.

AGRICULTURE POLICY CHANGES PROPOSED

Sweeping changes in the E.C.'s Common Agricultural Policy (CAP) have been proposed in a new Commission "Green Paper" (consultation paper) currently under discussion, which suggests a move away from farm subsidies toward a more market-oriented pricing policy.

The Green Paper is part of a general debate on the CAP launched this year by the Commission toward developing a global strategy that will allow European agriculture to meet the technical and economic challenges it faces through the end of the century. The CAP is a key element of European integration, and the preservation of a "Green Europe" which protects agricultural employment and serves the interests of all Europe's citizens is a top priority. But conditions are changing, and reforms in the system are needed if the CAP is to continue to serve its purpose.

One of the main problems has been a continuing accumulation of surpluses—the notorious "wine lakes" and "butter mountains"—which has resulted from the imbalance of prices and markets brought about in part by the price support mechanism of the CAP. This imbalance, the Green Paper argues, must be corrected if European agriculture is to develop.

NEW PROGRAM ON ENVIRONMENT IS PROPOSED

The E.C. Commission is proposing a five-year, $84 million project to establish a scientific basis for the implementation of E.C. environmental policy, and to promote long-term basic research on important environmental problems, it announced on July 25. The plan, which involves three multiannual programs to run through the end of the decade, focuses on R&D in environmental protection, climatology and major technological hazards—problems that "recognize no borders."

The program is a logical continuation of the three previous E.C. programs in this field, but shifts the emphasis away from research on emergency action toward scientific support for preventive and anticipatory policies. Much attention will be given to R&D on cutting pollution and the development of "clean" technologies. Research on critical natural ecosystems also will be increased, and the proposed research on climatology will focus on understanding man's influence on climate and on predicting the results of climatic changes.