

A Letter From EUROPE

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from its Delegation in Washington

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STATIC ON THE LINES

Much of the talk about trade in telecommunications lately seems to be suffering badly from static on the phone lines. We keep hearing that U.S. firms are being kept out of foreign markets by unfair trade practices, that the divestiture of AT&T was "the economic equivalent of unilateral disarmament" (Senator John Danforth), and that the U.S. telecom industry is the most competitive - and the American market the most open - in the world.

In keeping with the trend toward more aggressive American trade policies, a number of "get-tough" trade bills have surfaced in Congress proposing to close U.S. markets to foreign telecom companies whose governments fail to open their own markets within the next two to three years. Danger flags should be going up all over town on this one. We know by now that this kind of unilateral retaliation is risky, expensive and illegal under world trading rules - so before another trade dispute gets started, let's check the facts and get some of the static off the lines.

In the first place, the United States is not the only one frustrated by the lack of progress in opening up foreign markets. We in Europe are also concerned about sectors where we have a comparative advantage in trade, but where foreign markets are not as open as we would like. But retaliation in these cases is not the answer. It undermines the world trading system (on which most of the West's postwar prosperity has been based), and risks setting off a damaging cycle of retaliation and counter-retaliation. World trade is based on finding an overall balance from which everyone benefits; like death and taxes, sectoral imbalances are an unavoidable fact of life, and everyone has to put up with them. Tit-for-tat retaliation throws the system out of balance, and always results in the same score: No winners, lots of losers.

Another problem with settling disputes unilaterally is that a country may find itself forced to swallow a dose of its own medicine. If the U.S. acted against countries with which it had a telecom trade deficit, for example, then it would follow that countries in deficit with the U.S. should take similar measures. As it turns out, the E.C. - very much unlike the impression created - had a deficit of over \$500 million in telecommunications equipment in 1985 with the United States. Should the Europeans therefore retaliate?

We should also remember that the U.S. market is not as open as some would claim. Even though AT&T has split up and the Bell Operating Companies (BOCs) are now free to choose their suppliers, the legacy of

the "Ma Bell" system will be felt for years to come. Foreign suppliers who want to sell here have to adapt their products to U.S. specifications - at costs of 20 to 30 percent of their overall development costs. The BOC approval process, moreover, is long (two years), expensive (\$2 million to \$3 million) and offers no guarantee that the equipment being tested will actually be bought.

Remember too that the U.S. market was not deregulated overnight; the process began in 1968, culminated in 1982 with the divestiture of AT&T, and is still evolving as the Justice Department decides whether to allow the BOCs to enter into manufacturing, long-distance and specialized services in competition with AT&T. So is it fair to expect America's trading partners to deregulate their markets in only two or three years, or adopt a system that mirrors the still-changing U.S. system? Finally, why favor the bilateral route with barely-veiled threats of retaliation just at a time when we are entering a new round of multilateral trade negotiations, in which no sector is, in principle, excluded?

This being said, European governments realize that a review of the regulatory environment for telecom has become necessary. By the turn of the century, telecom is expected to account for about 7 percent of European GDP - more than triple the current amount. A healthy and unfettered telecom sector could play an important role in keeping E.C. industries competitive and stimulating economic growth. Substantial progress has been made recently toward creating an E.C.-wide telecom market. In 1984 the Council called on state Post, Telephone and Telegraph operators to open their calls for tender to companies in other member states, and recommended that telecom operators consult with each other in the framework of the European Conference of Postal and Telecommunications Administrations (CEPT) before introducing new services.

CEPT is now establishing standards for terminal switching equipment using international standards. New digital transmission and switching systems should now be based on standards and specifications accepted at the European level, and any innovations are now subject to a joint harmonized approach to enable compatible services to be offered throughout Europe. Two important directives have recently been adopted, one aimed at standardizing telecom and information technology and the other on mutual recognition of conformity tests on terminals. The latter is significant for U.S. as well as European producers, as it means terminal equipment will not have to go through a time-consuming (and money-wasting) battery of 12 different national approval tests.

In short, we both want the same thing - a broad, open telecommunications network - and if we're going to take advantage of the opportunities telecom is offering, we need to avoid the slippery slope of retaliation and work instead toward international standardization, which will facilitate the convergence of regulations and lead to more open trade. To get this process going, the Commission has initiated a dialogue with the U.S. Government, and at their most recent meeting in February both sides agreed to exchange information on regulations and to set up expert groups to discuss standardization. It's an important step in an important area, and there's a lot at stake for both of us. Let's keep the lines open.

Roy Jensen

WINDOW ON THE EUROPEAN COMMUNITY

FOREIGN TRADE

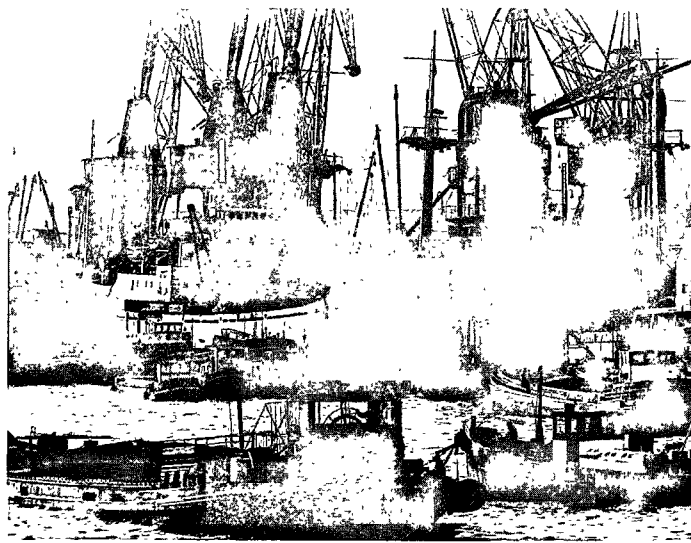
• **Chip Probe Opens:** The E.C. Commission opened an investigation on April 9 into charges that Japan has been dumping certain types of semiconductors in E.C. member states. The complaint was brought by the European Electronic Components Manufacturing Association (EECMA), which says that Japanese producers have captured a significant part of the European market for EPROM (Erasable Programmable Read Only Memory) chips by selling them at prices well below production costs.

"The Community," said Commissioner for external trade Willy De Clercq, "has a double interest where semiconductors are concerned. On the one hand, as it is largely dependent on imports of these products it cannot accept that their prices be fixed arbitrarily by the United States and Japan—as is the case in the framework of the accord between those two countries. This is why the Community has requested a panel in the GATT on this issue. On the other hand, the Community is a producer of semiconductors—the "raw material" of the new technologies—and expects to develop this production, in which it has already made a significant investment. This is why, if it is proven that dumping which is damaging to Community industries is taking place, the E.C. will take energetic measures to defend its interests."

• **Japanese Dumping:** In addition to the microchip dumping investigation launched this month, the Commission also opened a probe on April 15 into charges that Japan has been selling daisy-wheel and dot-matrix printers for computers in Europe at prices below production costs. The inquiry—the largest anti-dumping case ever ordered by the Commission—is the result of charges brought by the Committee of European Printer Manufacturers, and involves a market worth over \$1 billion. Japanese producers increased their share of the European daisy-wheel market to 70 percent last year from 40 percent in 1983, and of the dot-matrix market to 74 percent from 52 percent over the same period. Anti-dumping cases brought by the

Commission in the past have generally lasted about a year, and have in many cases resulted in temporary tariffs.

• **Exports Down, Imports Up:** Estimates by Eurostat for the three months to January 1987 indicate that E.C. exports are con-



With a 23-percent drop in prices, imports into the Community rose by 7 percent last year. Above: unloading in Rotterdam.

tinuing to decline, averaging 27 billion ECU per month, or some 15 percent lower than the corresponding period last year (10 percent lower in volume terms). E.C. imports from third countries during the period averaged 26 billion ECU per month, representing a 20-percent drop from a year before in value terms, but a small rise in volume terms. Imports rose by 7 percent during 1986, although prices dropped by 23 percent. Much of the price decline was due to a 48-percent drop in fuel prices.

The Community ran a small trade surplus in the three months to January, although intra-E.C. imports averaged 37 billion ECU per month, a decline of 5 percent from the year before. The decline was largely due to the lower cost of fuels, with the largest decline in exports being the United Kingdom and the Netherlands, the two largest E.C. fuel exporters.

• **Unfair Trade Charges:** The E.C. issued a list in early April of U.S. trade practices that act as barriers to imports of E.C. products. The report identifies more than 30 measures that the Community considers trade obstacles, including tariffs, import quotas,

customs barriers, public procurement policies, countervailing and anti-dumping duties procedures, export subsidies and tax barriers.

The Commission noted that the presentation of the report is similar to that of the Report on Foreign Trade Barriers issued last November by the Office of the

U.S. Trade Representative, and said that the purpose of the report is to show that trade practices which impede exports are not a problem faced only by U.S. exporters. Europeans face similar obstacles in the United States, the report notes, and unilateral action outside the international trading rules against "unfair trade practices abroad" could easily be mirrored by equivalent action against U.S. exports.

"These measures mean a considerable loss for European businesses," said Willy De Clercq, the E.C. Commissioner responsible for external relations. "We are ready to work with the United States in eliminating trade barriers either through bilateral discussions or within the Uruguay Round of trade negotiations."

• **Executive Training:** The Commission recently announced the names of 43 E.C. businessmen who have been selected to go to Japan for 18 months of E.C.-funded training in Japanese business, language and culture. The program, in operation since 1979, is designed to improve knowledge of the Japanese market on the part of European executives, to help them establish a presence in Ja-

pan, to facilitate cooperation with Japanese partners, and generally to develop trading relations with Japan.

BUSINESS & ECONOMICS

• **Lower Air Fares:** Cheaper European air fares may be on the way, due to a March 24 agreement by E.C. Transport Ministers on liberalizing the E.C.'s heavily-regulated air transport sector. The 12 Ministers decided on conditions that should be attached to proposed new discount and so-called "deep discount" tariffs, following months of negotiations. The agreement puts in place the first element in a package of liberalization measures drawn up by the Commission, which wants airlines to end restrictive practices such as fare-fixing and capacity-sharing agreements. No new fares will be seen, however, until the rest of the package is agreed.

• **Freedom of Movement:** The E.C. Commission is negotiating with the Union of European Football Associations (UEFA) to ensure that professional football [soccer] players in Europe are allowed to play on any European team, no matter what their nationality. The E.C. Treaty guarantees all workers—including football players—freedom to work wherever they want in Europe, and this was confirmed by the European Court of Justice about ten years ago. The UEFA and some national federations have, however, acted with disregard for this right; the Commission is exploring negotiations before taking any legal action against them.

• **Industrial Growth Slows:** E.C. industrial production slowed considerably in recent months due to the lack of growth in capital goods production since the end of the first half of 1986. The average increase in the index of industrial production between 1985 and 1986 was 2.1 percent (compared with an increase of 3.3 percent between 1984 and 1985), according to Eurostat. The rate of increase in the U.S. was 1.0 percent, compared with 1.7 percent the previous year, while Japan reports a fall of 0.3 percent, compared with an increase of 4.5 percent between 1984 and 1985.

FOREIGN AFFAIRS

• **Interest Rates Down:** Long-term interest rates (i.e. the yield on long-term bonds) were lower in January in most European Community countries as well as in the United States and Japan, according to the E.C. information bureau Eurostat. Long-term interest rates varied from a low of 2.2 percent in Greece to a high of 7.3 percent in Luxembourg, and rates in France (6.9 percent), Germany (6.6 percent) and the United Kingdom (6.2 percent) were roughly comparable with the 6.3 percent rate in the United States.

• **Steel Fines:** France's largest steelmaker, Usinor-Sacilor, was ordered by the Commission in late March to repay about \$520 million of aid it was illegally granted by the French Government between 1982 and 1985. The Commission found after an investigation that the subsidies were granted without the approval of the E.C., and was in violation of Community law.

• **Business Info Centers:** The Commission adopted a plan in early April for setting up a number of "centers for European business information" aimed at providing information on markets, legislation, technical standards, financing and other areas to small- and medium-sized enterprises (SME's) within the Community. Some 28 of the centers will be established by the end of 1988, according to the Commission's plan, and will have access to the Community's computerized data bases as well as to the Commission's SME Task Force in Brussels.

• **Consumer Prices Differ:** The European consumers' association BEUC published a survey this year that notes that prices for a number of consumer goods vary widely within the European Community, despite the progress made toward a common market in Europe. To get the best prices, consumers were advised to shop for cameras in Germany, perfumes in Denmark or Portugal, and compact disc players in Britain.

• **Public Contracts Opening:** The Commission announced plans recently aimed at opening up government contracts to companies throughout the Community. Lord Cockfield, the Commissioner responsible for the internal market, said that while contracts worth about 400 billion ECU (about \$450 billion) are awarded by governments and public bodies in the E.C. every year, only about 20 percent

of these are open to competition from companies in countries other than the one concerned. Cockfield said these kinds of restrictions were "a major source of inefficiency" in European industry.

situation due to the fact that American producers can count on a large, single market and can therefore offer their products at prices which are one-fifth of those demanded by Europeans.



Despite massive closures in European steel mills in the past decade, the industry still is far from profitability.

• **Steel Closings:** E.C. Industry Ministers adopted a resolution in March that said that mass closures of steel plants—and the loss of thousands of jobs—will be needed soon to reduce European steel-making capacity. The resolution said that closures proposed by the European steel lobby group Eurofer, including the loss of 22,000 jobs and a reduction of over 15 million tons per year, remain "considerably below" the surplus in steelmaking capacity. The Ministers called on the Commission to consult soon with Eurofer and major steel companies to determine how much scope exists for further cuts. The Ministers may approve a new plan when they meet again early in June.

SOCIAL ISSUES

• **Cinema and TV Year:** Carlo Ripa di Meana, the E.C. Commissioner responsible for culture, information and communication, presented the plan for the 1988 European Cinema and Television Year in Rome last month. "The culture, language, habits and customs of a country are spread and become known mainly through the media, especially the audio-visual media," said di Meana, who noted that Europe was far behind the United States in television programming, and ran the risk of being reduced to "colonial status." Imports now account for between 30 percent and 50 percent of the program time devoted to serials and films made for television, a

• **Birdwatch Europe:** European birdwatching societies are banding together to organize "Birdwatch Europe '87" from May 18 to 24. The Commission-funded campaign, which involves media programs, exhibitions, lectures and competitions, is designed to stimulate public awareness of the importance of bird protection.

• **Polar Flight:** As part of the dozens of events taking place throughout Europe and the world to mark the 30th anniversary of the signing of the Treaty of Rome, the Community's founding charter, an ultralight airplane is scheduled to plant a Community flag at the North Pole on May 7. Another expedition in May—to the summit of the Himalayan peak K2 in Pakistan—will also attempt to plant a Community flag. The E.C. flag shows a circle of 12 gold stars against a blue background.

• **New E.C. Headquarters:** The E.C. started construction on a new office complex in Brussels this month that, when completed in 1992, will house much of its growing body of civil servants. The \$260 million dollar project is being built on a 10-acre site donated by the Belgian Government, and will replace a number of rented buildings in downtown Brussels which have served as headquarters for the Commission, the Council of Ministers, and the European Parliament Committee. Some 15,000 E.C. civil servants now work in the Belgian capital.

• **Turkish Application:** Turkey formally applied to join the European Community on April 14, and the request was presented to the Council of Ministers for initial discussions on April 27. "This is an historic moment for my country," said Ali Bozer, the Turkish minister of state responsible for relations with the Community. The application will be considered according to normal procedures, but Turkey faces a number of obstacles in its bid for membership that could delay final entry for at least a decade.

• **China Talks:** E.C. Commissioner Willy De Clercq, in China late in March for talks with Peking on trade and economic development, signed an accord establishing a Delegation from the E.C. to China and expressed support for Chinese political and economic developments. "This visit was particularly satisfying," said De Clercq, "because it showed us China's will to pursue its policy of internal modernization and its political opening to the outside world, in spite of internal policy changes. China favors strengthened economic relations with the European Community . . . and sees the Community as a key future partner. We must respond to this call."

• **Hussein Visit:** Jordan's King Hussein met with Commission President Jacques Delors, Belgian Prime Minister Wilfried Martens and Foreign Minister Leo Tindemans in early April for talks on convening a Middle East peace conference. Belgium currently holds the presidency of the E.C., which has been promoting the idea of a multinational conference under the auspices of the United Nations to seek an end to the Arab-Israeli conflict.

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