EUROPEAN PARLIAMENT

EUROPEAN PARLIAMENT DELEGATION

for relations with

THE UNITED STATES

24th meeting of delegations

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BRUSSELS

Notice to Members

Members will find attached a background brief drawn up by the Commission of the European Communities at the beginning of November 1984 entitled

EC-US Relations: GENERAL OVERVIEW

DIRECTORATE-GENERAL FOR COMMITTEES
AND INTERPARLIAMENTARY DELEGATIONS

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EC-US RELATIONS : GENERAL OVERVIEW

1. Relations between the Community and the US have almost continuously been under tension since 1981. Sustained diplomatic efforts on both sides have enabled us until now to avoid major clashes over trade issues. The numerous contacts at ministerial level at the quadrilateral meetings or through the now institutionalised annual meetings between the Secretary of State and several other US ministers and the Commission, which have been held twice - in December 1982 and 1983 - have certainly been helpful. The US Administration has taken a firm stand against protectionist pressures from Congress and industry. Nevertheless these pressures which had built up considerably during the past pre-election period, led to a new trade legislation with a number of protectionist elements which are inconsistent with US international obligations and which may create new trade conflicts.

2. There is a reciprocal uneasiness on both sides of the Atlantic over divergent political, economic and monetary issues and specific trade problems. Like the Community, the US were hard hit by the recession. The approach to the crisis was different. The supply orientated US economic policy, and its tough monetary policy, have led to a considerable reduction of the inflation rate (from 12 to 4%), to a strong growth in real GNP and to the creation of several million new jobs in the last three years (whereas in the Community, in the same period millions of jobs were lost). On the other hand, expectations of a lower inflation rate and the budget deficit (1984 estimate: $174 billion) have pushed up real US interest rates and have led together with the image of a politically stable US in the middle of an unstable world, to a huge dollar demand, increasing the exchange value of the dollar by 50% since 1980 against a weighted average of other major currencies (12% against the ECU since the beginning of 1984). The resulting loss of competitivity of the US industry both in external markets and in the US home market and the increased import demand stemming from the economic recovery caused a sharp increase of the balance of trade deficit from $32 billion in 1980 to $70 billion in 1983 and to an estimated $130 billion in 1984. If the competitive stand of US industry cannot be improved by a considerably falling dollar rate or by import restrictions, the trade deficit will further be compensated for by ever increasing capital imports. There are no prospects in 1984 for any significant reduction of the budget deficit. Interest rates are still high (prime rate presently around 12.5%). Although the dollar recently weakened its position vis-à-vis the DM, the French franc and the yen, it is far from clear in which direction it will be moving in the next few weeks.

As a consequence for the Community of the continuing drain of capital to the United States our interest rates remain high. The resulting lack of cheap investment capital continues to hinder our own economic recovery, the modernisation and restructuring of our industry and the reduction of unemployment. We feel that this continuing relative weakness of the European economy negatively affects the willingness and the capability of Europe to speed up its ecnomic unification.

The US economic/monetary policy also hurts particularly the developing countries. Their debt problems are the more unsolvable, the more the US dollar rate and the US interest rates rise, and the more the United States try, by restrictive import measures, to neutralize the beneficial trade effects of the high US dollar rate and the high economic growth rate.

In fact, the overall economic and monetary environment led to a strong pressure from American industrial and agricultural lobbies on both the Administration and the Congress to adopt protectionist attitudes, and to file numerous petitions for protection under the US trade laws, such as specialty steel, carbon steel, flatware, footwear, copper, wine, machine tools, etc.

Fortunately, most of these petitions were rejected in the course of the legal proceedings or by presidential decisions, such as footwear, copper, flatware. The presidential decision on the 201 carbon steel petition leaves the EC-US carbon steel arrangement untouched, but sharper import restrictions on steel pipes and tubes from the Community are requested, and negotiations on this subject are going on. The anti-dumping and countervailing petitions filed against Community table wine were rejected, but the new provisions of the Wine Equity Act (see supra) may lead to a major clash. The retaliatory measures taken by the Community against the import quotas and tariff increases for specialty steel which the US had introduced in July 1983 have probably had effect of a deterrent against other similar measures. The protection requested on "national security grounds" by the machine tool industry is still put to the President's judgement. If such protection were granted, a major not only trade, but political conflict between allies would arise.

The Community was during the last 2 years very worried about the numerous protectionist bills introduced in Congress, such as the so-called trade remedy bills (Gibbons bill) and steel and steel pipes and tubes quota bills, reciprocity legislation and domestic content legislation, and the Wine Equity Act.

In the final version of the Trade and Tariff Act of 1984 adopted by congress on 10 October 1984 many of the most protectionist provisions were not included, but some remain, which are clearly inconsistent with the US international obligations and which would, if used, create major trade conflicts between the Community and the US. This would especially be the case if new AD/CVD petitions were introduced by the US wine growers against Community wine. At the meeting of the GATT Subsidies Committee of 2 November, the Commission challenged the amendment to US trade legislation. At its request a special meeting of the GATT Subsidies Committee will be convened shortly to examine the matter.

The major divergences on the issue of export controls of high technology goods for US foreign policy and security reasons remain. This divergence led in 1982 to the Siberian gas pipeline conflict, the up to then largest crisis in US-Community relations. If that particular problem has finally been solved by the lifting of the embargo, the general issue of the extraterritorial application of US law is not settled. The outgoing Congress failed to agree on a new Export Administration Act. Major provisions of the last version remain unacceptable to the Community. The Act will probably be one of the first items to be discussed by the new Congress. Similar problems exist with regard to some new export licensing procedures (Distribution Licenses) foreseen by the Administration. Conflict is pending.

We are also seriously concerned about the extraterritorial consequences of the unitary taxation system applied in a number of US States, which tax EC multinationals on a percentage of their world-wide profits instead of only on their profits in that particular US State. It remains to be seen what the US Government will be able to do vis-à-vis the individual States with the recommendations made recently by the Working Group on Unitary Taxation.

3. The United States on their side also have a number of major complaints about Europe. There is a growing disappointment about the Community's lack of understanding of or sympathy with major US policy interests i.e. in Central America. What the US do not seem to be willing to accept is the fact that the Community has different interests at stake and that its different approach to certain problems is based on a different political perception and appreciation of these problems. The political and psychological consequences of the US perception of a selfish, unreliable and inwardlooking Community together with a strong shift in economic interest towards the Pacific and Central and Latin America, where extensive US political and security interests are at stake, must not be underestimated.

A similar disappointment exists with regard to certain effects of Community policies like the reform of the CAP and its consequences for US exports of agricultural goods to the Community and third markets. The US feel that through our system of export restitutions we take an unfair part of world markets. These are two allegations clearly contradicted by the facts. The EC has only recently become a net exporter of several agricultural products and the amount of export restitutions paid is decreasing as a result of certain CAP reforms and of the narrowing gap between EC and world prices as an effect of the increasing dollar value. The discussions on Agricultural Subsidies in the GATT have run recently into a deadlock. The Community's intention to limit imports of corn gluten feed is seen by the Administration, Congress and the farmers as a "causus belli". Congress has adopted, within the Trade and Tariff Act of 1984 a strong resolution against such an action by the Community.

The United States also feel that our preferential trade agreements with southern Mediterranean countries discriminate against competing US products, especially citrus fruit. The "Soames-Casey" Agreement which had in our minds settled this problem is no longer recognised by the US. They also fear that the enlargement of the Community to Spain and Portugal will cut off their markets in these countries, both for agricultural and industrial exports. The result of this US perception is a renewed conflict in GATT on the interpretation of Article XXIV.

The United States also have the perception, which we strongly dispute, of protectionist Community policies in the industrial field and question particularly "unfair subsidies" (steel) or industrial policies (targeting) in high technology, Government procurement, export credits, etc.