

EUROPEAN PARLIAMENT

EUROPEAN PARLIAMENT DELEGATION

for relations with
THE UNITED STATES

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Notice to Members

EC-US RELATIONS: GENERAL OVERVIEW

(REVISED EDITION)

(This document exists in English only)

DIRECTORATE-GENERAL FOR COMMITTEES
AND INTERPARLIAMENTARY DELEGATIONS

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 had 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 - in December 1982, 1983 and 1984 - have certainly been helpful. During the 1984 election period the US Administration had taken a firm stand against protectionist pressures from Congress and industry. Nevertheless these pressures 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, to new protectionist origin rules for textiles and last but not least to the steel pipe and tube embargo against the Community of 29 November 1984.
2. There is a reciprocal uneasiness on both sides of the Atlantic over divergent political, economic and monetary issues and specific trade problems. US economic and though 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 competitiveness 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 1985 for any significant reduction of the budget deficit. Interest and dollar rates are still high.

The high dollar rate favours our exports (US trade deficit with the EC January to October 1984 : 11.2 billion \$). This has beneficiary effects on profitability, investment and employment, but on the other hand the drain of capital into the US, and consequently the lack of cheap investment capital, continues to hinder our own economic recovery. We feel that this continuing relative weakness of the European economy negatively affects the willingness and the capability of Europe to speed up its economic unification.

The US economic/monetary policy also hurts particularly the developing countries. Their debt problems are the more unsolvable, the more the US \$ rate and the US interest rates are high, and the more the United States try, by restrictive import measures, to neutralize the beneficial trade effects of the high US \$ 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 unilateral import restrictions on steel pipes and tubes from the Community have been introduced, without legal justification. The anti-dumping and countervailing petitions filed against Community table wine were rejected, but the new provisions of the Wine Equity Act (see infra) may lead to a major clash. The Community had to take retaliatory measures against the import quotas and tariff increases for specialty steel which the US had introduced in July 1983, and may need to take similar measures as a consequence of the steel pipe and tube import restrictions. The Community has triggered off the necessary GATT procedures. 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.

In the final version of the Trade and Tariff Act of 1984 adopted on 10 October 1984 many of these protectionist provisions were not included, but some remain, which are clearly inconsistent with the US international obligations and will create, if used, major trade conflicts between the Community and the US. This is already the case as a consequence of the application of the provisions concerning steel pipes and tubes import restrictions (see supra) and would also be the case if new AD/CVD petitions were introduced by the US wine growers against Community wine. In the GATT Subsidies Committee the Commission challenged the amendment to US trade legislation giving the US grape growers this right and this issue is on the track for conciliation and possibly for arbitration by the Contracting Parties.

Major divergences on the issue of export controls of high technology goods for US foreign policy and security reasons 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 Administration.

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 interests 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 Community's intention to limit imports of corn gluten feed is seen by the Administration, Congress and the farmers as a "casus belli". Congress has adopted, within the Trade and Tariff Act of 1984 a strong resolution against such an action by the Community. The new farm bill of 1985 which will be soon submitted to Congress, could give legal authority to a more aggressive US agricultural export policy.

The United States also feel that our preferential trade agreements with Southern Mediterranean countries discriminate against competing US products, especially citrus fruit. 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.

