

MEMO 92/85

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EEC/UNITED STATES RELATIONS

UNITED STATES

The relationship between the Community and the United States is of necessity complex and nowhere in this more apparent than in the sphere of economic and trade relations. The Community and the United States are the major participants in the international economic and trading system and in this they support broadly similar aims of strengthening the open world trading system and thereby expanding world trade. At the same time, they are competitors with divergent interests and sometimes different interpretations of the multilateral trading rules.

In spite of occasional difficulties the relationship has been successful in containing and controlling the many potential points of friction. Consultations at official level, frequent exchanges of visits by Ministers and Commissioners, and close contacts through the Commission's delegation in Washington and the US mission in Brussels have taken place since the early days of the European Community. In 1981, it was decided to intensify the dialogue at the political level and an important US ministerial delegation led by the US Secretary of State has since met each year with a Commission delegation headed by the Commission's President. These meetings emphasise that the EC-US relationship is basically a cooperative enterprise and that the conflictual elements must not be allowed to escape from their limited context.

The bilateral and multilateral importance of this relationship cannot be overestimated. Not only does it provide a solid basis for an annual bilateral trade of over 100 billion ECU, it also contributes in an important way to international trade cooperation. It has been instrumental in putting a brake on protectionist tendencies and in promoting international trade liberalisation. The successive GATT Multilateral Trade Negotiations could not have succeeded without the active support and cooperation of the Community and the United States.

The bilateral relationship

There is no formal agreement fixing a framework for the totality of relations between the Community and the United States as there is, for instance, between the Community and each of the EFTA countries. The ground rules for the bilateral relationship between the Community and the United States are mostly found in multilateral organisations, especially the ones which bring together the industrialised world such as GATT and the OECD.

In the area of trade, the general GATT rules apply and particularly the Most Favoured nation clause. By these the parties set up a relatively transparent non-preferential structure as regards trade tariffs and, through the GATT rules and codes, accept binding rules for most other matters concerning trade. In terms of quantitative restrictions, trade has been almost totally liberalised.

Bilateral agreements

In certain specific sectors bilateral agreements have been concluded :

Euratom/USA

This was the first agreement ever signed on behalf of the European Atomic Energy Community (Euratom) less than five months after the Euratom treaty came into force in 1958. The agreement, supplemented by a further agreement in November of the same year, establishes a framework for cooperation in the peaceful uses of atomic energy including the supply of nuclear fuel to the Community by the United States. In the late 1970's, the US government requested an updating of these agreements as regards in particular safeguards throughout the nuclear cycle. Discussions in this respect are still going on between the two parties.

Environment and Work Safety

In 1974, the Commission and the US administration agreed to periodical consultations at official level and, where appropriate, common action on environmental questions. In 1979 it was agreed to hold expert level meetings on various aspects of safety and hygiene at work.

Fisheries

An agreement was signed in February 1977 regulating access of Community fishermen to the US fisheries zone. This agreement has recently been renewed for the period 1984-89.

Steel Arrangement

During the present recession in the steel industry the American government has sought to limit imports of ordinary and special steels to the American market. At the beginning of 1982, the American steel industry, in a concerted effort to reduce steel imports from all sources, launched a series of anti-dumping and countervailing suits against, among others, European steelmakers. As their adoption of protective measures would have entailed a drastic reduction in European exports to the US market, the Commission negotiated an arrangement providing for guaranteed but reduced access to the US market and the dropping of all anti-dumping and countervailing suits by the American companies concerned. The Arrangement, covering the period 1982-85 was concluded in October 1982 and has functioned to the satisfaction of both sides. Tension arose in January 1984 when Bethlehem steel filed an import relief petition, which could have jeopardised the Arrangement, if, as a result of the investigation, stricter import restrictions had been imposed than those agreed upon in the Arrangement.

Specialty steel was not covered by the 1982 Steel Arrangement. In July 1983, President Reagan, following a recommendation from the US International Trade Commission, decided to impose quotas and additional tariffs on specialty steel imports for a period of 4 years. The Community protested against this unilateral action and demanded compensation under GATT rules. After unsuccessful negotiations, the Community was obliged to take compensatory action in conformity with GATT rules. This consisted of increasing tariffs and imposing quotas, from 1 March 1984, and for the duration of the American measures, on products such as chemicals and sporting equipment from the United States.

In November 1984, the US Government decided unilaterally to block all imports of Community pipes and tubes from 29 November 1984 till the end of the year and to impose an import quota of 5.9% of US consumption for 1985. Intensive consultations between the Commission and the US authorities took place in late 1984 and led to an exchange of letters in January 1985 concerning bilateral trade in pipes and tubes. By virtue of this arrangement the Community will limit its exports (of pipes and tubes) to 7.6% of the American apparent consumption in the period 1985-86. A specific solution was found for pipes and tubes which arrived in the United States between the imposition of the import ban and the beginning of 1985 when the new arrangement took effect.

The Community and the US are currently negotiating on the so-called consultation products of the 1982 Steel Arrangement and have agreed to start negotiating for the prolongation of this arrangement after 1986.

Agriculture

Friction in this area has mainly been centred on 3 issues, US exports of animal feed to the Community, Community exports to third markets and access to the American market of Community exports.

The Community has decided as part of the reform of its Common Agricultural Policy to negotiate with its trading partners the stabilisation, at their current level, of imports of certain cereal substitutes. It has already reached agreement with a number of countries concerning imports of manioc. The Community now proposes to negotiate similar arrangements within GATT rules on other cereal substitutes and in particular corn gluten feed, a by-product of maize of particular interest to the United States. The end result should be that exports of corn gluten feed to the Community could continue at current level free of import duty while any future expansion would involve the application of import charges.

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On the question of Community exports to third markets, the United States considers that exporting with subsidies is fundamentally wrong. Article XVI of the GATT, however, allows export subsidies where they do not lead to an inequitable share of the world market. The Community considers that it has kept to the letter and spirit of Article XVI and that the difficult situation of American exporters is more due to the high level of the dollar. Agreement was reached in the recent meeting of the GATT contracting parties to discuss further how agriculture should be treated within the GATT framework. They agreed in particular to examine all export subsidies and import restrictions.

The Commission has recently regretted the American decision to implement the "Bicep" programme (Bonus incentive commodity export programme) designed to boost American agricultural exports by granting additional free tonnage to importers of American agricultural products.

A third category of problems which has arisen in EC-US agricultural trade is the growing tendency within the US Congress to adopt legislation which implied some form of reciprocity in bilateral trade. This is typified by the Trade and Tariff Act which has just been adopted by the Congress which could restrict access for wine to the American market, by giving US grape growers the right to introduce anti-dumping and anti-subsidy complaints against wine imports. The Community is of the opinion that this is a violation of GATT rules which specify that only producers of the same or of a similar product can introduce such complaints. The Commission has initiated for GATT-consultations on this matter.

Other Issues

The Community has expressed its concern to the United States on a number of other issues including textiles, extraterritoriality and unitary taxation. In the first of these the United States Customs have implemented new rules of origin which could have a severe effect on exports of textiles from the developing countries to the US and are already having some effect on Community exports. On extraterritoriality, the new Congress will have to examine an Export Administration Bill which is likely to contain elements contrary to the Community's interest. Thirdly, the unitary taxation system, adopted by some States, creates an unfair tax burden for Community multinationals with subsidiaries in the United States.

Development and Structure of Trade

The Community and the United States are the two largest trading partners on the world scene. In 1983 they accounted for 20.5% (293 billion \$) and 17.3% (258 billion \$) of total world exports respectively. The two parties are also each other's largest trading partner and their bilateral trade (over 100 billion Ecu) alone accounts for approximately 6% of world trade.

Over the years EC/US bilateral trade has constantly shown a trade deficit for the Community and at times this deficit has reached dramatic levels as in 1980 when it was almost 18 000 MECU. Because of the strength of the US\$, the Community's deficit has however decreased and in 1984 the Community had a surplus of 8 300 MECU.

The last few years have shown a remarkable increase in bilateral trade between the Community and the United States. EC imports have more than doubled from 25 711 MECU in 1977 to 61 930 MECU in 1984. In the corresponding period exports to the USA rose from 20 531 MECU to 70 285 MECU.

Seen from the point of view of the trade balance the Community has its largest trade surplus on cars and lorries (6 400 MECU), followed by oil (4 600 MECU), iron and steel (1 900 MECU), alcoholic beverages (1 900 MECU), mineral manufactures (1 700 MECU), machinery (1 100 MECU) and non ferrous metals (1 100 MECU). On the debit side the main deficit area is agricultural products (6 000 MECU) including oil seeds (2 800 MECU), animal feed (2 100 MECU) and cereals (1 100 MECU) followed by office machinery (4 700 MECU), electrical machinery (1 700 MECU), scientific apparatus (1 500 MECU) and coal (1 400 MECU).

Trade between the EC and USA

| | Millions ECU | | | | | | | |
|------------|--------------|-------|-------|--------|--------|--------|-------|-------|
| | 1960 | 1970 | 1975 | 1980 | 1981 | 1982 | 1983 | 1984 |
| EC/IMPORTS | 5470 | 12416 | 20915 | 44601 | 49585 | 53831 | 53482 | 61930 |
| EC/EXPORTS | 3371 | 9354 | 13295 | 26775 | 37169 | 42908 | 50275 | 70285 |
| EC BALANCE | -2369 | -3062 | -7620 | -17826 | -12416 | -10923 | -3207 | 8355 |

Trade by Product Sections

| | 1983 Millions ECU(*) | | |
|--|----------------------|---------------|------------|
| | EC Imports | EC Exports | EC Balance |
| Agriculture | 4647 (8.7%) | 1451 (2.9%) | -3196 |
| Tobacco Drinks | 670 (1.3%) | 2013 (4.0%) | 1342 |
| Raw Materials (including oil seeds) | 6486 (12.1%) | 531 (1.1%) | -5954 |
| Mineral Fuels | 2542 (4.8%) | 5693 (11.3%) | 3151 |
| Vegetable and animal oils | 217 (0.4%) | 43 (0.1%) | - 173 |
| Chemicals | 4731 (8.8%) | 4013 (8.0%) | - 718 |
| Basic Manufactures | 3706 (6.9%) | 8600 (17.1%) | 4894 |
| Machinery & Transport Equipment | 19204 (35.9%) | 18101 (36.0%) | -1102 |
| Other Manufactures | 5984 (11.2%) | 6562 (13.1%) | 578 |

Source: EUROSTAT

(*) The exchange rate ECU/dollar varies daily as the various EC currencies, which make up the ECU, vary against the dollar. One ECU was worth US\$ 1.2 in 1973, US\$ 1.39 in 1980, US\$ 1.12 in 1981, US\$ 0.98 in 1982, US\$ 0.89 in 1983 and US \$ 0.83 in 1984.

TRADE BETWEEN THE COMMUNITY AND THE UNITED STATES

Millions ECUS

EC IMPORTS

| | 1981 | 1982 | 1983 | 1984 |
|---------------|-------|-------|-------|-------|
| EUR 10 | 49584 | 53830 | 53481 | 61930 |
| FRANCE | 7875 | 8202 | 7906 | 8587 |
| BELG. - LUXBG | 4065 | 4261 | 4299 | 4529 |
| NETHERLANDS | 5610 | 5982 | 6413 | 7490 |
| FR GERMANY | 10798 | 11290 | 11356 | 12845 |
| ITALY | 5563 | 5936 | 5369 | 6546 |
| UTD. KINGDOM | 12905 | 15384 | 15398 | 18829 |
| IRELAND | 975 | 1116 | 1326 | 1741 |
| DENMARK | 1381 | 1226 | 1014 | 1002 |
| GREECE | 409 | 430 | 397 | 358 |

EC EXPORTS

| | 1981 | 1982 | 1983 | 1984 |
|---------------|-------|-------|-------|-------|
| EUR 10 | 37168 | 42907 | 50275 | 70285 |
| FRANCE | 5028 | 5338 | 6474 | 9597 |
| BELG. - LUXBG | 2108 | 2356 | 3001 | 3992 |
| NETHERLANDS | 1980 | 2196 | 3112 | 4310 |
| FR GERMANY | 10332 | 11835 | 14466 | 20925 |
| ITALY | 4627 | 5284 | 6317 | 10172 |
| UTD. KINGDOM | 11518 | 13945 | 14441 | 17577 |
| IRELAND | 439 | 588 | 783 | 1192 |
| DENMARK | 796 | 973 | 1361 | 2009 |
| GREECE | 336 | 389 | 315 | 510 |

EC BALANCE

| | 1981 | 1982 | 1983 | 1984 |
|---------------|--------|--------|--------|-------|
| EUR 10 | -12416 | -10922 | - 3206 | 8355 |
| FRANCE | - 2847 | - 2863 | - 1432 | 1010 |
| BELG. - LUXBG | - 1957 | - 1904 | - 1298 | -537 |
| NETHERLANDS | - 3630 | - 3786 | - 3300 | -3180 |
| FR GERMANY | - 465 | 544 | 3110 | 8080 |
| ITALY | - 935 | - 651 | 948 | 3626 |
| UTD. KINGDOM | - 1386 | - 1438 | - 956 | -1252 |
| IRELAND | - 536 | - 528 | - 542 | -549 |
| DENMARK | - 584 | - 252 | 347 | 1007 |
| GREECE | - 73 | - 41 | - 81 | 152 |

4