

A Letter from Europe

A monthly update on the European Community from its Delegation in Washington

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UNFAIR TRADE PRACTICES: ARE FOREIGNERS HURTING U.S. BUSINESS?

A dangerous illusion is stalking the world. It flourishes here in the United States at least as well as anywhere else. The illusion is that honest businessmen here are working their tails off but are losing out because of unfair trade practices abroad. The expression "unfair trade practices", of course, translates to "what the other fellow does." What one does oneself is by definition above board. I inquired politely of an old English business friend of mine years ago about allegations that he was dumping products on the world market at less than their fair market value. "Nonsense," he replied, "I was exporting at a loss in the national interest."

Let us look at some of the unfair trade practices that are said to afflict American exports. First, subsidies in industry. Here the illusion prevails that the US is one of the last bastions of un-subsidized free enterprise, while others, including Europe, are subsidizing themselves out of their minds. In our case it is certainly true that the steel industry in certain EC Member States has benefited from extensive government subsidies. But here we have taken some tough decisions; no subsidies have been permitted since 1981 unless linked to reductions in production capacity. These subsidies are to be eliminated entirely by 1985. On this side of the Atlantic, while federal money is not given to the US steel industry, steel imports have been limited by a series of restrictions. Elsewhere in the US, subsidies are not unknown. In 1981 the overall rate of US tax subsidies to business as a percent of manufacturing investment was 12.8%, compared with 4.4% in France and a negative rate in Germany. Just over half of US expenditure on R&D, both defense and non-defense, is funded by the Government. A lot of help flows to industry from the NASA budget. In addition, the US Government spends approximately 500 million dollars a year subsidizing the shipbuilding industry. From 1972 to 1983 benefits to exports from the Domestic International Sales Corporation fell just short of \$12 billion. These last two programs are being re-examined. But all of this is enough to show that subsidies are not a uniquely European phenomenon. We are both sinners in the eyes of the Lord.

What do the international trading rules say about

industrial subsidies? They do not say that such subsidies are forbidden. The rules recognize that "subsidies are used by governments to promote important objections of national policy". Only where it can be shown that such a practice is directly responsible for injury elsewhere, the do the rules provide for counter-measures.

Let us look at agricultural subsidies. The perception here is that subsidized foreigners, particularly Europeans, are cheating American farmers out of overseas markets. The truth is different. The definition of subsidies can provoke endless argument. However, subsidies to farmers are substantial on both sides of the Atlantic. This year US farmers will be making nearly as much off government farm programs as they will get from selling or not producing crops.

Agricultural subsidies are a fact of life; and were recognized as such during the most recent round of international trade negotiations. All of the participants, including the EC and the US, agreed that agricultural subsidies were permitted so long as they did not allow any trading partner to get more than an equitable share of world trade. What is equitable? Take the case of wheat and wheat flour, which account for nearly one-third of US farm exports. In the years 1968-71 and 1979-82 the Community share of world trade rose from 10% to 14%. Meanwhile the US share rose from 34 to 46%. So, the facts do not show that the EC has been breaking international rules.

Allegations of unfair trade practices abroad--which come far too easily-- must be viewed in the light of laboriously negotiated international trading rules. We may not always like them--just as the individual citizen may not like all of his country's laws. But they are the only rules we have. We can discuss whether we can make them clearer. We can work on improving some of the codes of trading conduct. But, to abandon the rules at this stage or attempt unilaterally to rewrite them would mean chaos in world trade just when we need it least.

One final point. How has American business done in the jungle some would have us believe exists overseas? Between 1970 and 1980 the value of the US share of world agricultural exports jumped from 25 to 39%. In 1980 the US registered an agricultural trade surplus of \$26.8 billion. In the case of industry the US share of world exports of manufactured goods rose from 17% in 1978 to 21% in 1981. These figures show both the skill and salesmanship of American farmers and businessmen and their stake in world trade. They also show that despite the fuss over unfairness, the US has not done too badly under the world trading rules. Let's stick to them.

Ray Jorman

Window on the European Community

US AGREES IN PRINCIPLE TO COMPENSATE EC FOR IMPORT RESTRICTIONS...

...The US earlier this month agreed in principle to compensate the EC for losses in export earnings resulting from recent US restrictions on imports of specialty steel products. At a September 7 meeting in Geneva the US told the EC it would complete as soon as possible a detailed analysis of the impact of the US measures in response to claims that the curbs would cripple EC exports. Over their four-year life, the EC estimates that the US restrictions could cost the Community's steelmakers \$570 million in lost trade. Any compensation agreement reached between the two sides probably would involve US trade concessions on other imports from the EC.

The controversial US specialty steel import restrictions, announced in July, were designed to remedy the injury done the US domestic steel industry by allegedly unfair foreign competition. The EC immediately protested the curbs, saying that the new tariffs and quotas, coupled with earlier penalties, would put EC specialty steelmakers at a disproportionately severe disadvantage in competition for the US market. The EC took its complaint to the General Agreement on Tariffs and Trade (GATT) where it demanded its right to compensation under GATT rules. US and EC delegations are scheduled to meet again on October 5 to try for an agreement on compensation terms.

EC POISED TO BEGIN BAN ON IMPORTS OF BABY SEAL PELTS...

...The EC will ban commercial imports of baby seal pelts, beginning October 1, to express concern over the environmental impact of the annual hunts in which the pelts are taken and to protest the often inhumane killing methods used. The go-ahead for the two-year ban came from the EC Commission, which reported on August 23 that its consultations with Canada and Norway--the two leading pelt exporters--had produced no justification for postponing or reversing the ban. Environment Ministers from the 10 EC countries decided last March to impose a ban on seal skin imports. However, they had delayed the effective date until October in hopes that talks with Canada and Norway would result in changes in their hunting practices and allay other Community concerns. The EC had been a major market for seal skins even though some EC countries had already placed their own restrictions on the trade.

EC PREPARES IMPORTANT FARM POLICY REFORM PROPOSALS...

...The EC Commission has prepared a series of reforms designed to cut the cost of its farm price support programs and accelerate efforts to bring the EC's internal prices closer to world market levels. The Commission's plans, outlined in a July 29 report, include measures that would affect both the EC's internal farm prices and external trade. The Commission's report proposed continuing and in some cases expanding the use of "guarantee thresholds" which set limits on the amount of a given crop EC farmers may produce without being penalized for surplus production. The report also concluded that the introduction of a production quota for milk was the only realistic solution for curbing surplus milk production--the EC's most pressing farm problem. Furthermore, it proposed a series of tough new penalty levies on surplus milk. In a related move, the Commission also called for a 3-cent-per-pound consumption tax on vegetable oils and animal fats other than butter to offset the impact its proposed milk production control measures otherwise would have on the fats and oils market. The proposed oils and fats tax would apply equally to domestically produced and imported products.

On the international front, the Commission proposed the adoption of measures to stabilize the EC's imports of corn gluten and citrus pellets (both livestock feeds), using procedures sanctioned by international trading rules. The EC claims that soaring imports of corn gluten and other grain substitutes have reduced the domestic demand for EC feed grains, thus forcing the EC to sell large quantities of this displaced grain abroad. The US has strongly criticized the resulting growth in EC grain exports in recent years. The Commission has not yet announced details of its planned corn gluten import proposal. The Commission's proposed farm policy reforms would need the approval of the EC's Council of Ministers before they could be implemented.

CRACKDOWN UNDERWAY IN EC ON AID TO INDUSTRY...

...The EC Commission has announced a crackdown on unauthorized subsidies or other forms of illegal aid paid by EC countries to their national industries in violation of EC competition rules. EC Commission Frans Andriessen told a legal conference in Oxford, England this month that the Community gradually would begin demanding repayment of governmental aid that had been granted to EC-based industries without prior Commission approval.

Community law generally prohibits national aid to industry because of its tendency to give the beneficiary firm an unfair advantage in the market place. However, the Commission can authorize exceptions when aid packages are specifically designed to restructure an ailing industry.