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ANNEX

to the report by Mr HANSCH
drawn up on behalf of the Political Affairs Committee

on political relations between the European Community and
the United States of America

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OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

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English Edition

On 31 January/1 February 1984, the Committee on Economic and Monetary Affairs decided to draw up a new opinion for the Political Affairs Committee.

On the same date, the committee confirmed the appointment of Mr von WOGAU as draftsman of the opinion.

The following took part in the vote:

Mr MOREAU, chairman; Mr HOPPER, vice-chairman; Mr von WOGAU; Mr BEAZLEY, Mr CALVEZ (deputizing for Mr de GUCHT), Mr DELOROZOY, Mrs DESOUCHES, Mr MARCHESIN (deputizing for Mr PAPANTONIOU), Mr MULLER-HERMANN, Mr PURVIS (deputizing for Miss FORSTER), Mr SCHINZEL and Mr WELSH

This opinion was tabled on 6 March 1984.

Economic relations between the Community and the USA are affected in several fields by the policy pursued by the American Administration. The positions adopted by the American Administration, whether in the conduct of economic and monetary policy, as regards the iron and steel industry or agriculture are, without being the sole cause of difficulties encountered by the Community, an important contributory factor.

The economic and monetary policy of the United States

The recovery of the American economy is indisputable if judged by the growth rate which should be 5.4% in 1984. Inflation has been brought down from 13.5% in 1980 to 3% in 1983. The rate of unemployment has also decreased substantially from 10.7% in 1982 to 8.2% in 1983 and, according to forecasts, should continue to decrease.

However, this recovery is accompanied by an unprecedented budget deficit (195 thousand million dollars in 1983), as well as by record deficits in the balance of payments and the trade balance.

Major fluctuations in the exchange rate of the dollar and the maintenance of a very high interest rates in many ways adversely affect the economic situation in the Community which, in particular is denied the capital needed to cover its investment requirements. Similarly, whilst the over-valuation of the dollar favours the export of certain categories of Community products, it helps to raise the price of petroleum products and raw materials, on which the Community is very dependent. The inflation percentage caused by the present dollar exchange rate is estimated at 0.5% in the Federal Republic of Germany, 1% in France and 1.5% in Italy.

The American Administration's indifference towards the consequences of such a policy on inflation, investment and indebtedness, especially of the developing countries, is seriously delaying the spread of a resumption in world economic development and any reduction in unemployment. This policy runs counter to the commitments undertaken at the last conference of the industrialized nations in Williamsburg to pursue suitable monetary and budgetary policies aimed at slowing down inflation, lowering interest rates, intensifying productive investment and increasing the number of job opportunities.

Trade in agricultural products

The Community takes some 20% of American agricultural exports. Soya and maize account for about half of American exports to the Community.

Community imports of cereals substitutes rose from 6.2 million tonnes in 1974 to 17.6 million tonnes in 1982. The Community cannot impose production limits on its producers of cereals, dairy products and meat without at the same time trying to curb the supply of cheap animal feedstuffs which compete with cereals and encourage livestock production.

Under these conditions, the Council has approved the opening of negotiations within GATT aimed at stabilizing imports of maize gluten feed and other by-products of the maize industry subject to appropriate compensation.

It is to be hoped that the American Administration will recognize the right of the Community to conduct these negotiations, and that it will refrain from aggressive actions such as making deliveries of subsidized agricultural products aimed at capturing traditional Community export markets in agricultural products. It is also to be hoped that Congress will not tolerate such protectionist measures as the Wine Equity Act, which would considerably limit imports of wine from EEC countries

In general, the accusations levelled by the American Administration at the common agricultural policy are unjustified, for the market support indicator in relation to the number of people working in the agricultural sector, and even in relation to agricultural production, shows, on the contrary, that the level of support granted to agriculture under different forms in the United States is comparable if not higher.

Steel

In spite of numerous difficulties, the Community is trying hard to implement a general plan to restructure the iron and steel industry which should allow it to tackle competition on the international steel market without the help of state aid by the end of 1985.

However, the unfortunate fact has been that the reduction in production actually put into effect by the American industry following the voluntary restraint agreement, more often benefits countries such as South Korea or Latin American countries that have taken over market areas abandoned by the Community.

The complaint recently lodged by Bethlehem Steel is also likely to challenge this arrangement. Finally, in addition to the deteriorating situation as regards common steel, there is the concern aroused by the protectionist measures adopted by the American Administration in July 1983 as regards imports of special steels, products with a high added value in which European iron and steel producers had found some compensation for the voluntary restraint agreements on common steel. This situation led the Community to adopt compensation measures against certain chemicals and other products, no progress having been made in the negotiations on compensation under GATT rules.

The Export Administration Act

The American law on exports is in the process of being renewed. This law, dating back to 1979, included extra-territorial provisions, in particular the right of the President of the United States to impose sanctions on European subsidiaries of American companies established in Community territory, to impose export restrictions retroactively, thereby calling the validity of contracts already concluded into questions and to prohibit imports into the United States of products originating from firms in third countries that have not adhered to American export restrictions.

These extra-territorial arrangements are unacceptable to the Community. The American Administration should have the right to impose restrictions to such an extent outside American territory only subject to agreement with the trading partners concerned.

Unitary tax

It is worrying that in several American States, a unitary tax system has been introduced whereby tax on transnational companies is calculated on the basis of their profits made worldwide and not just on the profits made in the state concerned.

The Community has denounced this procedure which discriminates against European undertakings and leads to double taxation. In its resolution of 12 December 1983, the European Parliament raised the possibility of suspending the agreements on double taxation concluded between the Member States and the United States. It is to be hoped that the report drawn up by the working party set up for this purpose will soon submit constructive proposals on this subject which is a sensitive one in view of the autonomy of the fiscal authorities in the American States, since they are not bound by directives issued by the Federal Administration.

Aid to developing countries

It is also highly regrettable that the United States is reducing the volume of aid to developing countries at a time when these countries are heavily indebted, this situation being aggravated by the overvaluation of the dollar and very high interest rates.

Admittedly, thanks to its ratification by Congress, the decision taken by the Interim Committee of the International Monetary Fund to triple the funds which the IMF may borrow from the Group of Ten under the general loan agreements has been implemented. But the IMF can only supply treasury funds to countries heavily in debt, whereas these countries need permanent investment. This is why American unwillingness to take part in the refinancing of the International Development Association, which has been providing substantial multilateral aid for 20 years, is very worrying. The Community, which is close to concluding a new agreement with the ACP States, can only deplore this fact.

Conclusions

The Committee on Economic and Monetary Affairs:

1. Asserts the urgent need for the United States and the Community, in their mutual interest and in the spirit of the recommendations made at the recent conference of the industrialized nations held in Williamsburg, to succeed in establishing close economic and monetary cooperation

commensurate with their responsibilities and the seriousness of such as under-employment, the indebtedness of the developing countries, hunger and renascent protectionism;

2. Stresses the detrimental effects on European economic recovery likely to arise from major fluctuations in the exchange-rate of the dollar and high interest rates; this situation, although it is not the sole cause, deprives the Community of necessary productive investment, contributes, in some Member States, to a persistent excessively high rate of inflation and jeopardizes the consolidation of the EMS; emphasizes, further, that this situation creates difficulties for the economies of developing and industrialized countries, and for those of the Community and of the United States itself;
3. Requests the American Administration to agree shortly to enter into negotiations within GATT on the stabilization of corn gluten-feed imports into the Community and, in general, to give due consideration to the legitimate interests of European agriculture by refraining from stepping up aggressive subsidized exports aimed at capturing traditional community markets in agricultural exports;

Requests congress to refuse to adopt protectionist legislation such as the Wine Equity Act and the Gibbons Bill,

4. Reminds the American Administration of its joint responsibility for maintaining and effectively operating the voluntary restraint agreement on steel exports concluded between the United States and the Community in October 1982; is deeply concerned about the repercussions of complaints recently lodged by Bethlehem Steel concerning this agreement, and about protectionist measures taken with regard to special steels; asserts that the seriousness of the world crisis in the iron and steel industry makes it essential to avoid a further worsening of the situation and to abide strictly by the rules adopted by common accord;
5. Requests that before it adopts the new law on exports, Congress should take better account than hitherto of the Community's objections, especially regarding all the extra-territorial provisions, which are unacceptable; similarly hopes that a solution will be found to the vexing question of unitary tax, which represents an arbitrary application of American tax rules and violates established conventions on double taxation;

6. Hopes that the American Administration, bearing in mind the considerable indebtedness of the developing countries and its repercussions on the world economy, will reconsider its position on multilateral aid to such countries, particularly on the refinancing of the International Development Association, and will not embark on a restrictive policy on exclusively bilateral bases,

7. Insists, therefore, on the need to promote a permanent and constructive dialogue between the European Community and the United States; stresses at this juncture the quality and scope of the work accomplished to this end by the delegations from Congress and the European Parliament and hopes that it will continue; hopes, finally, that as a result of this dialogue, and for their mutual benefit, the United States will demonstrate less indifference and that the Community, more resolute in its aims, will find the strength to be a demanding partner.

