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IN RELATION TO GATT

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1. Introduction

In 1982 the combined share of the EC and the USA in world trade amounted to some 45% and even excluding intra-EC trade it still amounted to 42%. By comparison the next biggest trading partner, Japan, only accounted for a share of 7.5%. It is necessary to bear these figures in mind when discussing the present and the future of GATT. Without the consent of the two major trading powers nothing can be achieved within GATT, and a precondition for such consent is mutual agreement between the EC and the USA. Therefore, EC - USA trade relations have been crucial to the development of GATT in the past and will continue to be so for the foreseeable future.

Present EC - US relations within GATT should also be seen in the light of the drastic deterioration of the US trade balance in recent years. Thus the first ten months of 1984 showed a US deficit of 105.5 billion \$ compared with 55.5 billion \$ for the same period of 1983. In 1983 the Community had a relatively small deficit of 3.206 mio ECU in its trade with the USA, but during the first 9 months of 1984 it increased to the more "normal" level of 13.719 mio ECU. In spite of this, the negative overall development in the US trade balance cannot help triggering protectionist reflexes in many quarters, which will tend also to hit trading partners that are not contributing to the deficit.

It followed from the last annual GATT meeting at the end of November 1984 that the major issues to be discussed between the EC and the USA in 1985 will above all be an extended GATT coverage for agricultural products and a liberalisation of trade in services. Both items are of particular interest to the USA.

Other items which already form a part of the work-programme adopted at the 1982 Ministerial Session are a reduction of the number of non-tariff barriers, the composition of panels responsible for dealing with disputes raised within GATT, the application of the safeguard clause (Article XIX), the fluctuation of exchange rates and trade in counterfeit products. These latter items are, however, not of specific importance to EC - USA relations.

Also the renewal or abolition of the Multi-Fibre Agreement, which expires by mid-1986, will have to be decided on. Being an auto-limitation

agreement it is, legally speaking, outside the GATT framework, but is nevertheless being managed by the GATT secretariat.

Finally, the discussions about a new GATT round and its possible scope have been going on throughout 1984 and are likely to continue in 1985 with the EC, USA and Japan as the main actors but, as the November 1984 Session showed, with an increasing participation of third world countries.

The following is a brief account of the major issues and of the attitudes of the EC and the USA to these issues.

2. Agriculture

In recent times the US has found it difficult to sell its agricultural surpluses abroad because the recession has reduced demand for them and the high value of the dollar has increased their price. Moreover, a number of developing countries are short of funds and have therefore had to reduce their imports of agricultural products.

Every advanced country in the world supports its farmers and the EC and the US are no exceptions. The problem is that world markets are over-supplied with cereals, dairy products and sugar. Indeed, the world position in relation to cereals would be worse but for the fact that several years of bad harvests in the USSR have necessitated considerable imports of US wheat. There are indications, however, that because of improved production in China imports will not be required to the same extent as in the past.

In spite of the fact that US agricultural exports to the EC in 1983 amounted to 9.5 billion ECU against Community exports of only 3.8 billion ECU to the USA, the Americans tend to consider the CAP as being very protectionist, and that its subsidy policy (export restitutions) disturbs the world market.

The operation of the CAP has led to a considerable increase in agricultural production in the Community. The US claims that exports

of dairy products and cereals from the Community are leading to increased competition on third country markets. While EC export restitutions are designed to enable agricultural exports to be sold at world market prices, the US has not hesitated on occasion to subsidise its own exports. For example, in 1983 the US sold one million tonnes of wheat flour to Egypt, a traditional Community market, at a price about one third below the world market price. Moreover, the US recently announced subsidised credit deals for Morocco, Egypt, Tunisia and Iraq. In the fiscal year 1984 US total wheat and wheat flour exports rose by 12% in volume and by 10% in value.

As to the general level of agricultural subsidies, in the fiscal year 1983 the US Federal Government outlay for farm price and income support programmes totalled \$ 18.9 billion. To this must be added another \$9.4 billion worth of payment-in-kind (PIK) commodities committed in 1983 to compensate farmers for reducing their crop acreage in order to reduce inventories.¹⁾ The Community's 1983 budget for the Common Agricultural Policy was in comparison only \$15 billion.

Since the late seventies the Community has become concerned at growing imports from the US of corn gluten feed and soya which are used for animal feed. These products enter the Community at zero rate of duty and their impact is considerable.

Imports of manioc, which is used in animal feed to replace soft wheat and barley, have been limited by the Community. These imports come principally from Thailand. This action has led to proposals that a similar limitation should apply to imports from the US of corn gluten feed - they amounted to 3.6 m. tonnes in 1983. This product may be used in animal feed as a substitute for EC cereals which, in the present surplus situation, are displaced on to the world market to compete with US exports. In these circumstances American resistance to a stabilisation of its corn gluten exports makes little sense.

1) Annual Report of the Council of Economic Advisers

Total Community imports of soya beans, soya cake as well as oil seeds and products, were valued at \$3.6 billion in 1983 and are expected to rise to \$4.6 billion in 1984. The considerable increase in milk production in the Community is linked to the use of soya in compound feeds for milk cows. It is unreasonable, therefore, for the US to defend its exports of soya while at the same time criticising exports of EC dairy products to the world market.

The US Wine Equity Bill enables grape growers to complain about imports of wine and demand anti-dumping duties or compensatory measures. Protectionist moves of this sort are causing considerable disquiet in the EC as the Bill contains elements which would be contrary to GATT.

GATT has played a rather modest role as far as trade in agricultural products is concerned. Agricultural policies were largely excluded from the ambit of GATT in response to the feeling, particularly in the United States, that domestic policy should not be subject to international restrictions. In 1955 the US was granted a waiver which effectively removed the major elements of US agricultural policy from international scrutiny. More recently the CAP was tacitly accepted by most countries including the US. The GATT code on export subsidies was approved some time ago after years of negotiation and it remains the basis of any discussion on whether subsidies are justified or not.

Following the GATT Ministerial Meeting in 1982 a Committee on Trade in Agricultural Products was set up with a view to make recommendations on the liberalisation of agricultural trade. The Committee finished its work in November 1984 and made the following recommendations, which were adopted during the subsequent session:

1. A strengthening of the GATT rules and disciplines on quantitative restrictions and other attached measures. This approach should also involve the drawing up of rules and disciplines for agreements to limit exports voluntarily, variable levies and taxes, non-consolidated customs duties and arrangements for a minimum import price.

2. In the field of subsidies and other export aids for agricultural products, including subsidized credits, two parallel approaches should be followed: a) improving the existing framework of rules and disciplines; b) a general ban on subsidies subject to carefully defined exceptions.
3. The harmful effects on trade of health and phytosanitary regulations should be reduced.

Furthermore, the draft recommendation calls for more transparency of policies and measures affecting agricultural trade; to this end, the system of notifications to the other parties must be permanently applied. The text also calls for the special needs of the developing countries to be taken fully into account.

In an entry in the minutes, the EEC made its final approval of the draft recommendation dependent on an overall assessment of the results obtained in the other areas of the GATT working programme drawn up in November 1982.

3. Trade in services

Liberalisation of trade in services has been a matter to which the USA has given high priority for several years and with good reason. In 1982 68% of U.S. civilian employment was in the services sector and only 28.4% and 3.6% respectively were employed in industry and agriculture. The corresponding figures for the Community were 56.1% in services, 36.2% in industry and 7.7% in agriculture.

Already during the GATT Ministerial Meeting in 1982 the USA tried to achieve some progress on this issue, but it was merely decided to call for national studies on trade in services, to review the results of these examinations and consider whether any multilateral action in these matters would be appropriate and desirable.

The Community has not adopted a negative attitude with regard to the liberalisation of services, but rather a hesitant one. One plausible reason for this is that the services field is new territory for the Community, which has to be explored further before a negotiating position can be defined. One practical difficulty is, for instance, that there is no single Commission service which is geared to deal with the

field of services in general.

At the GATT session in November 1984 the USA achieved a breakthrough in this field. After a tough confrontation with the developing countries, led by India and Brazil, who are eager to protect their own service industries, agreement was reached on the setting-up of a framework for formal talks. This represented a compromise as the Americans originally had wanted the establishment of a working group on the issue.

4. Other issues.

While several other issues raised within GATT may be important to either the USA or the Community, or even to both, they do not tend to create major problems between the parties. This applies for instance to the question of liberalisation of trade in high technology products. The background to the American demand to discuss this matter is a desire to improve access to the Japanese market in particular. The Community does not directly oppose discussion of this problem, but it has certain fears that GATT rules in this area could interfere with its attempts to develop industrial policies in various fields.

For the time being no concrete decisions have been reached, but the issue is to be discussed by the GATT Council.

The Community and the USA are equally interested in fighting trade in counterfeit products, but the importance of this problem in bilateral relations is limited. The Community, on the other hand, has taken a particular interest in promoting studies on the effects of exchange rate fluctuations.

The application of the Multifibre Agreement itself has not given rise to bilateral EC - USA problems. On the other hand, recent American plans to introduce new stricter rules of origin for textiles have been sharply criticized by the Community within GATT. The planned rules of origin are considered a serious technical barrier to trade, and the Community fears possible spill-over effects on its own textile imports.

5. Prospects for a new GATT round.

During the last couple of years the USA and Japan have repeatedly suggested the organisation of a new GATT round in the near future.

In the view of the Americans this new round should in particular focus on a liberalisation of agricultural trade, trade in services and in high technology products.

The Community on the other hand has displayed a rather hesitant attitude stressing the necessity of a full implementation of the Tokyo round decisions before starting a new round. The Community has also underlined the need for careful preparation of a new round of negotiations. Thus, until recently there was little clarity about the timing and the possible contents of a new GATT round.

A step forward was made at the last GATT session, where an overall compromise was reached, as to the equilibrium to be maintained between, on the one hand the 1982 work programme, and, on the other hand, the organisation of new multilateral negotiations. The compromise establishes a certain degree of parallelism between the two elements; a decision in principle on a new round will not be taken until autumn 1985, in the light of whatever progress is made in the meantime.

