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From Transatlantic Partnership to Permanent War?

What once took place only sporadically has been occurring every year since the beginning of this decade: a trade war between the European Community and the USA. In this year's conflict – referred to by the newspapers as the “spaghetti war” – the combatants agreed mid-July on a four-month truce, which is to be used for intensive negotiations.

The spaghetti war was evoked by the decision announced by the American Administration at the beginning of June, that with effect from 5th July, 1985, special import duties of between 25 and 40 % – depending on type – would be imposed on durum wheat pasta imports from the EC. A duty of only 1 % had been levied up until that time. The new measure was justified by pointing to the EC's subsidies for durum wheat exports and above all to the preferential tariffs granted by the Community for citrus products from Mediterranean countries.

The Community was enraged at this move and responded with retaliatory measures. The EC announced that in the event of implementation of the American plans for special import duties it would in turn raise duties on imports of lemons and nuts from the USA from 8 % to 30 %. This was a mutual declaration of war, even though there were also signs of a willingness to negotiate.

The volume of trade covered by this dispute cannot be termed significant. The USA itself claimed that without preferential tariff treatment for citrus fruits from Mediterranean countries the additional revenue for exports to the EC would have amounted to roughly \$ 48 million. EC pasta exports to the USA in 1984 were worth about \$ 36 million. The fact that there was nevertheless talk of a trade war despite such relatively low figures is due to the verbal intensity of the dispute on both sides of the Atlantic. This, however, is only justified if the dispute is really about more than just citrus fruits and pasta.

The decision to impose special import duties on Italian spaghetti was taken shortly after the economic summit meeting in Bonn. During the summit Americans and Europeans were unable to agree on a fixed date for the start of a new round of negotiations within the framework of the General Agreement on Tariffs and Trade (GATT). The Europeans dismissed the American desire for a fixed date at the Bonn summit as a formality, emphasising that the preparations for the GATT talks would be made as planned. They failed to appreciate, however, that the GATT date was a top-priority matter of prestige for the American President.

In the face of high balance-of-trade deficits there has been a growing call in the USA for trade restrictions. President Reagan wanted to keep the increasingly vehement protectionists at home in check by referring to the multilateral negotiations. Now that he has been let down by his trading partners, however, he sees no alternative but to try to achieve his goals by exerting bilateral pressure.

It was no more than logically consistent, therefore, for the outgoing State Secretary in the US Department of Commerce, Lionel Olmer, to declare that his government would seek bilateral solutions if there were no success at a multilateral level. Congress already established the legal basis for this approach in the “Trade and Tariff Act” adopted in autumn last year, which demands reciprocity for all products and by all trading partners.

The Americans have particularly given vent to their pent-up annoyance at EC behaviour in the field of farm products. To demonstrate how serious they are about this matter they not only demanded compensation for the preferential treatment Europe grants to imports of

citrus fruits from Mediterranean countries, but they also announced that they would be supplying Algeria with 1 million tons of wheat as part of the Bonus Incentive Commodity Export Program. A total of \$2 billion is to be made available for this programme over the next three years. According to Commerce Department statements, the programme sets out to counter the unfair trading practices of other countries, which have snatched away third-country markets from the Americans by subsidising exports. As John Block, Secretary of Agriculture, explained, Algeria is a prime example of the effects of such unfair practices by the EC. The American share of the Algerian wheat market has dropped over the past five years from 41 % to 16 %, whereas the EC has been able to extend its share of this market during the same period from 29 % to 59 %. The EC, therefore, can work out for itself what would happen on third-country markets for farm products if there were no negotiations with the United States or if such negotiations were to prove unsuccessful.

The American Administration has also got things moving again in the steel products sector. It made the proposal to the Community of Ten to depart from the existing agreement on steel pipes and tubes and allow imports of an additional 100,000 tons of special steel pipes and tubes for the building of the "All-American Pipeline". The condition for these extra-contractual imports, however, was the immediate start of negotiations on the renewal of the carbon steel agreement. This voluntary restraint agreement, drawn up by the EC in 1982 and valid until the end of 1985, stipulates in the case of eleven types of steel that the EC is only allowed to account for a 5.9 % share of the US steel market. A further condition is that the agreement be renewed by 15th October. In addition, agreement must be reached by mid-July that 17 further steel products, for which up to now there has only been an obligation to hold consultations but no quantitative limitations, be included in the new carbon steel agreement. Furthermore, the USA announced that Romania, Czechoslovakia and Hungary had agreed on voluntary restraint agreements for steel products lasting five years and that a similar agreement will soon have been concluded with Poland. The USA is obviously serious about bilateralism, all the more as similar agreements can no longer be ruled out for shoes and textile products.

The EC finally yielded to such pressure. Although it was able to cite the conclusion drawn by a GATT panel that the preferential tariffs granted to Mediterranean countries are indeed detrimental to American citrus fruit exports to the Community but do not contravene GATT stipulations, the US position was supported by the findings of another GATT panel, which at the request of the American Administration, had confirmed in 1982 that EC subsidies for pasta exports are incompatible with GATT regulations. The USA has agreed to defer the planned increase in import duties for pasta from the EC for four months and the EC to shelve its planned duty increases on citrus fruits and nuts from the USA for the same period. At the same time, the Community will reduce export reimbursements for pasta supplies to the United States from 14 to 8 ECU per hundred kilos. In addition, there was agreement to continue negotiations on the inclusion of 17 special types of steel in a new carbon steel agreement and on the interpretation of the bottleneck clause in the voluntary restraint agreement on pipes and tubes, i.e. on the supply of an additional 100,000 tons of special pipes and tubes.

The Community was undoubtedly well advised to obtain breathing space in this way in order to reconsider its reluctance to discuss the problem of trade in farm products and farm subsidies within the framework of multilateral negotiations. Of course, protectionism in this field is not just a problem of the European Community. But the 1985 Farm Bill represents a brave step by the USA towards reducing farm subsidies. Within the EC, too, it is clear to all participants that the support for the agricultural sector has reached a level at which it can hardly be financed and thus threatens to break up the Community. The Community has more to gain than to lose from a multilateralisation of the problem. For, as shown by events of recent years and of June 1985, if agreement on a fixed date for the start of a new round of GATT talks is not reached soon, a permanent transatlantic trade war is imminent. The return to bilateralism for almost all products, however, would mean the end of GATT and deal a deathblow to free world trade.

Manfred Holthus