

**TRIP REPORT ON CONGRESSIONAL
DELEGATION BENTSEN**

**(European Visit of Saturday, November 3, 1990
Through Sunday, November 11, 1990)**

Prepared by the Staff for the Use of the

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

LLOYD BENTSEN, *Chairman*



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July 11, 1991

Committee on Finance
United States Senate
Washington, D.C. 20510

To the Members of the Senate Committee on Finance:

In November 1990, I led a United States Senate delegation to Europe to discuss with European government officials, business leaders, and other individuals important trade and economic issues. This visit was particularly timely in light of the negotiations in the Uruguay Round and the ongoing process of economic integration within the European Community through the EC 1992 process.

The following report sets forth the substantive matters that were taken up during the visit. As we proceed this year with continued consideration of these trade initiatives, I hope this report will be helpful to you.

Sincerely,


Lloyd Bentsen
Chairman

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TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

I. INTRODUCTION

Between November 3 and November 11, 1990, a delegation of four Members of the United States Senate travelled to Europe to discuss trade. The delegation was led by the Chairman of the Finance Committee, Senator Lloyd Bentsen, who has been designated by the President pro tempore of the Senate as an official adviser on trade policy and trade negotiations, pursuant to section 1632 of the Omnibus Trade and Competitiveness Act of 1988, and by Senator John Danforth, the Ranking Member of the International Trade Subcommittee of the Finance Committee and an alternate trade adviser. In addition, the delegation included Senator Tom Daschle, a member of the Finance Committee, and Senator Richard Bryan.

Travelling with the Senators were their wives, who accompanied their spouses (at the Senators' expense) for protocol purposes; Robert D. Kyle, Chief International Trade Counsel of the Committee; Kevin Dempsey, Legislative Assistant to Senator Danforth; Gay Burton, Executive Assistant to Senator Bentsen; Dee Bartley, Professional Staff Member, and Julia Hart, Staff Assistant, Office of Interparliamentary Services; and a complement of military personnel.

Treatment of Classified Information.—During the period when the travel covered by this report occurred, the President and his U.S. Trade Representative (USTR) were engaged in trade negotiations on subjects within the scope of this travel. It has long been the convention of the Committee on Finance that the trade strategy and tactics of the United States with respect to pending negotiations was not discussed publicly where it had been classified by the Administration. This practice protects the U.S. position in pending negotiations, while allowing the Executive Branch to consult fully with Congress on trade policy and trade negotiations. In accordance with this practice, this public report does not discuss sensitive negotiating strategies of the United States which have been classified, even though these were the subject of discussions with Administration officials in Washington before the group left and after they returned and with the staffs of U.S. embassies and missions abroad.

In addition, during the trip, the delegation visited the U.S. Mission to the North Atlantic Treaty Organization (NATO), during which they discussed with the U.S. Ambassador to NATO the status of the U.S. commitment and military developments in the Persian Gulf. This discussion involved classified matters relating to national security, and is not the subject of this report because of the sensitivity of the matters discussed.

Purposes of the Travel.—This trip occurred at a time of major importance for U.S. international trade and the multilateral trading system. Approximately 1 month after the trip occurred, trade ministers from over 100 countries were scheduled to meet in Brussels, Belgium, with the intention of completing negotiations with regard to the Uruguay Round of Multilateral Trade Negotiations under the General Agreement on Tariffs and Trade (GATT). The trip permitted the Senators to discuss issues relating to the Uruguay Round and other trade issues with senior officials from Europe and other significant countries.

The trip was particularly timely because it occurred at precisely the time that the European Community was reformulating its position with regard to the agricultural negotiations in the Uruguay Round negotiations. In fact, the delegation's meetings in Brussels coincided with key meetings held by officials of the European Community regarding agricultural trade issues.

The trip also gave delegation members an opportunity to discuss a number of bilateral trade disputes that had developed between the U.S. and the EC, including disputes involving Airbus, EC soybean supports, the EC's recent ban on pork imports from the U.S., and a dispute involving the U.S. imposition of health restrictions on imported grapes treated with procymidone, among other issues.

Moreover, the EC is still undergoing the process of completing one internal market, known popularly as "EC 1992." That process is expected to unite economies representing approximately 325 million people with a gross national product of \$4.6 trillion. The trip gave delegation members an opportunity to explore the progress of that process and the competitive challenge it will present for U.S. producers. It also gave members of the delegation an opportunity to press EC and European officials to ensure that EC 1992 is a vehicle for external market opening, not market closing.

II. GENERAL BACKGROUND OF THE TRIP—THE URUGUAY ROUND

A. STATUS OF THE NEGOTIATIONS AT THE TIME OF THE SENATORS' TRIP

The Uruguay Round formally began in 1986, when Ministers from most member countries of the General Agreement on Tariffs and Trade (GATT) met in Punta del Este, Uruguay to authorize the start of negotiations. By July 1990, negotiators in Geneva had developed draft agreements on all but the most controversial subjects, although virtually all drafts were bracketed (either in whole or in part), signifying that few significant decisions had been made. By Fall 1990, GATT officials had begun holding smaller meetings with key country representatives to try to hammer out agreements in each subject area. At the time of the Senators' trip—less than 1 month prior to the scheduled completion of the Round—few major issues had been resolved.

The delegation's visit came, therefore, at a critical time in the negotiations. Many important decisions were scheduled to be made by the November 23 deadline by which final draft texts were to be completed. The texts were to be translated in time for the Ministe-

rial meeting in Brussels, scheduled for December 3 through 7, 1990. At that meeting, the Ministers were expected to resolve the outstanding issues and conclude the Round. The Round was not, of course, concluded in Brussels. Instead, the inability of the Ministers to reach agreement in Brussels underscores the complexity and sensitivity of the issues which dominated the debate during the Senators' visit.

B. PROFILE OF KEY NEGOTIATIONS

The Uruguay Round negotiations have been conducted in two umbrella groups: the Group on Trade in Services and the Group on Trade in Goods. The Group on Trade in Goods is further divided into 14 negotiating groups, dealing with the following specific subjects:

- Agriculture
- Trade-Related Aspects of Intellectual Property Rights (TRIPs)
- Tokyo Round Codes (including those on import licensing, standards, and customs valuation)
- Tariffs
- Non-Tariff Measures
- Dispute Settlement
- Functioning of the GATT System (FOGS)
- Natural Resource-Based Products
- Subsidies and Countervailing Measures
- Trade-Related Investment Measures (TRIMs)
- GATT Articles (including those on balance of payments, state-trading, preferential trading arrangements, GATT waivers)
- Safeguards
- Textiles and Clothing
- Tropical Products

The most contentious issues at the time of the Senators' trip included agriculture, services, TRIPs, TRIMs, dispute settlement, market access (both tariff and non-tariff measures), textiles, dumping, and safeguards. These issues are discussed below.

(1) *Agriculture*.—Three previous GATT Rounds failed to liberalize agricultural trade, largely because the EC was unwilling to modify its domestic agricultural policies. It was clear at the time of the Senators' trip that agriculture generally, and EC intransigence in particular, were the major stumbling blocks to progress in the Uruguay Round.

The United States began the Round seeking the elimination of all trade distorting agricultural policies. At the Montreal Mid-Term review of the Uruguay Round in December 1988, agreement was reached that the long-term objective of the agricultural negotiations was to provide for "substantial progressive reductions in agricultural support and protection." In the period between Montreal and the Senators' trip, negotiations over how to accomplish that objective made little progress.

The United States has been specifically seeking reforms in four areas: export subsidies, market access (e.g., quotas, tariffs), internal support measures (e.g., support prices, target loans), and health and

sanitary measures. Since forms of subsidies and protection vary from country-to-country, the United States has proposed 'calculating Aggregate Measures of Support (AMS), which would specify the monetary equivalent of all forms of support and serve as the basis for negotiations.

In its proposal tabled just before the Senators' trip, the United States called for a 75 percent reduction in most agricultural support measures and trade barriers, and a 90 percent reduction in export subsidies. The EC Commission had approved a proposal by Commissioner Ray MacSharry calling for a 30 percent reduction in many areas, but the reduction would be computed from a 1986 base, which would make the actual EC reduction only about 15 to 20 percent. The Commission's proposal did not propose reducing export subsidies at all. It also called for rebalancing, which would permit it to raise import protection for cereal substitutes to compensate for reduced support and protection for cereals.

The United States has not been the lone proponent of agricultural trade reform. A number of countries, particularly some developing countries, have made agriculture trade liberalization a top priority. Their interests have been actively represented in the Round by a coalition of agricultural exporting countries, known as the Cairns group, (including Canada, Argentina, Australia, New Zealand, Malaysia, Indonesia, the Philippines, Thailand, Brazil, Chile, Colombia, Uruguay, and Hungary).

(2) *Services*.—The United States pushed for inclusion of services in the Uruguay Round because of that sector's immense importance to the U.S. economy (cross-border sales of U.S. services reached \$115 billion in 1989, yielding a \$20 billion surplus in services trade) and because of the lack of internationally agreed rules governing trade in services. The United States' goals have been to negotiate (1) a framework agreement setting forth general market access principles and (2) specific liberalization commitments.

The negotiations have been contentious from the start. Many less developed countries (LDCs) remain hostile or at least indifferent to a services agreement that would include obligations to liberalize their services trade. The developed countries and a number of the more advanced developing countries (the NICs) support liberalization and the formulation of general rules, but differ on how the agreement should be structured and what the obligations should be.

The major outstanding issue at the time of the Senators' trip involved the most-favored-nation (MFN) principle, the current rule in the GATT that benefits given to one GATT member must be given to all. Although MFN helps make the liberalizing benefits of GATT truly global, it also permits countries to get a free ride (e.g., the United States must make its tariff reductions apply to all GATT countries, even those that do not make reciprocal concessions). In the services negotiations, the United States and Japan—in contrast to virtually all other participants—are wary of providing unconditional MFN treatment because it could give a free ride to many countries, who would benefit from existing bilateral and multilateral agreements affecting services.

(3) *TRIPs*.—From the outset of the Uruguay Round, the United States' goals in the intellectual property area had been to seek an

agreement that would provide strong minimum standards of patent, trademark, copyright, computer software and trade secret protection and strong enforcement provisions, particularly in LDC markets. The negotiations, however, evolved into a protracted North-North debate because the EC and Japan, in particular, attempted to use the TRIPs negotiations to seek major substantive changes in U.S. law.

At the time of the trip, major outstanding issues included: an EC copyright proposal that the TRIPs agreement cover so-called moral rights, which are not explicitly covered in U.S. copyright law; the patentability of pharmaceutical products; an EC proposal that the United States modify its patent system by adopting a first-to-file system like the EC, rather than the first-to-invent system of the United States; EC insistence that the agreement protect geographical indications, including appellations of origin for wines; and LDC proposals that would provide for onerous compulsory licensing regimes.

(4) *Investment*.—The negotiations on Trade-Related Investment Measures (TRIMs) have been directed at eliminating such measures as local content or export performance requirements (e.g., requirements that a U.S. firm, before it can locate in a foreign country, must agree to source a certain amount of inputs locally or to export a certain amount of its production). The United States, supported by almost all of the developed countries, has insisted that certain TRIMs be prohibited outright. Virtually all of the LDCs have opposed the outright prohibition of any TRIMs. Instead, they have argued that any discipline on investment measures should be limited to remedying the adverse trade effects (much like an anti-dumping proceeding), thus placing the burden of proof on the complaining party, rather than on the country imposing the TRIM.

(5) *Dispute Settlement*.—Dispute settlement has become a critical issue in this Round because there has developed a perception that the current dispute settlement system is not working well and because, as GATT expands to cover new areas such as services, intellectual property, and investment, GATT dispute settlement methods (which will enforce agreements in these and existing areas) become increasingly important.

At the time of the Senators' trip, consensus seemed to be building around a proposal to create binding, automatic, time-limited dispute settlement procedures, a significant shift from the current rules that allow any party to block GATT action. Under the leading proposal, parties would be bound by a GATT panel's report, either after the initial panel ruling or after an appeal. Once the panel and appeals process are completed, the offending party would have six to 7 months to develop an implementation plan. If the plan is not developed, the aggrieved party could retaliate against the losing party.

(6) *Market Access*.—The market access negotiations concern the traditional trade barriers: tariffs and non-tariff measures (such as quotas and import licensing restrictions). Until September 1990, these negotiations focused largely on the *method* for making reductions. The EC and others favored a formula approach (e.g., a 33 percent cut across-the-board), whereas the United States favored a request-offer approach in which each country makes individualized

offers to every other country. The reason for this difference is simple: Because the United States is relatively more open than other markets, the formulaic approach would simply keep the United States at a relative disadvantage. Individualized negotiations offer a better prospect of bringing all barriers down to equal levels.

While the methodology issue had not been completely resolved at the time of the trip, the United States and others had begun making specific requests and offers on tariff cuts (some offers being formulaic and others being individualized).

In addition, the United States had been advocating a zero-for-zero tariff proposal: Following the advice of the private sector, the United States told its trading partners that it would be willing to reduce certain tariffs to zero, in exchange for zero tariffs in the other markets. The sectors supporting the zero-for-zero negotiations include steel, aluminum, wood products, paper products, pharmaceuticals, electronics, construction equipment, and certain consumer products.

In addition, in late October the United States tabled a new proposal that offered to make additional tariff cuts on a number of products. The U.S. action was prompted by criticism from the EC and Japan that the United States' earlier offer had fallen short of the tariff reduction target—33 percent—that trade ministers had agreed to at the Montreal Mid-Term Review (while some other countries' offers had exceeded the 33 percent target). The new U.S. offer extended the proposed U.S. tariff reductions to more than 40 percent.

(7) *Textiles*.—World textile trade currently is governed by the Multifiber Arrangement (MFA). The MFA, in effect, defines circumstances in which importing countries may restrict textile imports unilaterally without having to compensate the LDCs, as required under normal GATT rules.

Textile trade liberalization has been the highest priority of many of the LDCs participating in the Round. By the time of the trip, the LDCs had stuck to the unified view that liberalization should occur through a transition mechanism based on the current MFA system of country- and product-specific quotas, spelled out in detail in the Uruguay Round agreement. In contrast, the United States had proposed converting the MFA's quotas to a global quota or tariff rate quota in which countries would not be assigned markets shares, but rather would compete freely within the context of gradually declining restrictions on total imports.

Negotiations on textiles continued during and after the Senators' trip, and the negotiating group reached agreement on a text to forward to the Brussels ministerial meeting. The major outstanding issues include the question of duration of the transition of the textile sector to a strengthened GATT, the growth rates that would apply to new and existing quotas, the proper safeguards mechanism, and the relationship of the transition mechanism to strengthened GATT rules.

(8) *Dumping*.—The renegotiation of the Antidumping Code has been one of the most sensitive negotiations in the entire Round. The U.S. goal has been to update the Code to deal with the growing problems of circumvention of antidumping measures, problems

arising when inputs to the final product (rather than the final product itself) is dumped, and the situation in which one corporation repeatedly dumps. In addition, in response to the increased use of antidumping measures against U.S. exports, the United States wants to incorporate into the Code minimum standards for transparency (*i.e.*, open processes) and due process in antidumping investigations.

A number of the LDCs, as well as some developed countries, believe that both the United States and the EC should make significant concessions in the antidumping area. Hong Kong, Singapore, Korea, Japan, Canada, and the Nordic countries all seek changes to the status quo through the revision of almost every procedural and methodological aspect of antidumping practice.

In July 1990, the negotiations reached an impasse as virtually all of the participating countries criticized the draft discussion text prepared by the chairman of the negotiating group. At the time of the trip, the negotiations were proceeding on the basis of a revised text, but the events of the summer appeared to lower expectations all around.

(9) *Safeguards*.—GATT Article 19, which permits GATT-approved safeguards measures, is widely interpreted to require the across-the-board, or MFN, application of safeguard measures. However, the use of safeguard measures also carries a price: The foreign country affected can require compensation (an offsetting liberalization in some other area) or retaliate against the country implementing the safeguard measure. Because of the compensation requirement, countries have increasingly resorted to bilaterally-negotiated, or gray area, measures that technically fall outside Article 19, such as voluntary restraint agreements. These gray area measures typically apply only to selected countries.

At the heart of the debate is the threshold issue of the selective (*i.e.*, against a few suppliers) versus MFN (across-the-board) application of safeguards measures. The EC has been the main advocate of selectivity, while LDCs favor global restrictions, because they believe that developed countries would use safeguards actions less frequently if they were required to apply restrictions on an MFN basis.

By the time of the Senators' trip, the negotiations had made progress. The discussions had been revolving around a proposal that would permit countries to take safeguards actions for a short period without paying compensation if the measures were applied on an MFN basis; compensation would be required if safeguards actions were applied only to selected countries. By the time of the Brussels Ministerial, the discussion had shifted to other proposals. The draft text that emerged from Brussels advocated only MFN safeguards actions, and provided an incentive for measures of short duration: There would be no right to retaliate against safeguards actions as long as they did not exceed 3 years.

CONGRESSIONAL ROLE

The 1988 Omnibus Trade and Competitiveness Act (the 1988 Trade Act) established the terms under which Congress would approve any Uruguay Round agreement that might be reached. In

general, a majority vote of both Houses of Congress must approve any Uruguay Round agreement. The agreement—and the legislation implementing the agreement—would be considered under fast track procedures.

Under the 1988 Trade Act, the Administration's negotiating authority for the Round terminates on June 1, 1991. At least 90 days prior to actually entering into an agreement, the Administration must notify Congress of its *intent* to enter into the agreement. In the case of the Uruguay Round, the Administration must notify Congress of its intent to enter an agreement no later than March 1, 1991. (Later notification would require the Administration to sign the agreement after June 1, 1991, but the Administration would have no negotiating authority to do so.)

The 1988 Trade Act also provides for an extension of the Administration's negotiating authority in certain cases. Under the Act, the Administration may request a two-year extension of its negotiating authority, until June 1, 1993. To receive the extension the President, by March 1, 1991, must submit a request for an extension along with his reasons for the request. However, the extension is not granted if either House of Congress adopts a resolution of disapproval by June 1, 1991. Resolutions in either House would be given fast track consideration.

III. GENERAL BACKGROUND OF THE TRIP—THE EUROPEAN COMMUNITY

A. U.S.-EC TRADE AND INVESTMENT

The United States and the EC are of roughly equivalent size in terms of both GDP and total world trade. In 1989, U.S. GDP was about \$4.9 trillion, versus \$4.6 trillion for the EC. Total world trade was \$837 billion for the United States versus \$885 billion for the EC (excluding trade among EC countries which is over \$600 billion annually). However, the smaller U.S. population (245 million versus 325 million for the EC) makes the United States a larger economy on a per capita basis.

The EC countries as a group are the largest trading partner of the United States, with total two-way trade in 1989 of over \$170 billion. (Canada is the largest *single-country* trading partner of the United States.] From 1987-89, the EC took about 23 percent of U.S. exports. These U.S. exports are particularly significant because the percentage of exports in key technology-intensive industries was high; for instance, nearly half of all U.S. computer and computer part exports go to the EC, and the United States runs a substantial trade surplus with the EC in the capital goods area.

Due largely to the decline in the dollar and increased U.S. competitiveness, the United States has more than doubled its exports to the EC in 5 years and transformed a \$19 billion trade deficit with the EC in 1985 into a \$1.2 billion surplus in 1989, with a larger surplus expected in 1990. (This is despite a continued large bilateral deficit with Germany.)

Increased trade has been coupled with increased foreign direct investment by both the EC and the United States. U.S. direct investment in the EC in 1989 was \$150 billion, up 14 percent from

1988 and constituting 40 percent of all U.S. foreign direct investment. EC direct investment in the United States in 1989 was \$235 billion, a 21 percent increase from 1988 and 58 percent of all foreign direct investment in this country. Taken together, U.S. exports to Europe and sales there by U.S.-controlled subsidiaries (the latter an estimated \$600 billion) are three times larger than they are for Canada and four times larger than for Japan.

B. OVERVIEW OF THE EUROPEAN COMMUNITY AND EC 1992

(1) *The Single Market Initiative.*—In many respects the European Community's (EC) single market process formally began in 1985 when the European Commission issued a White Paper entitled "Completing the Internal Market." This White Paper established a blueprint for a single EC market by the end of 1992. In that document, the Commission identified 300 regulations (since reduced to the present 282) necessary to remove the remaining physical, technical, and fiscal barriers to the movement of goods, services, capital, and labor within the EC. The process of market integration and elimination of these barriers has come to be known simply as "EC 1992."

The present EC is a customs union, established under the Treaty of Rome in 1957, meaning that it has no internal tariffs, a common external tariff, and a common trade regime vis-a-vis non-members. (This distinguishes the EC from a free trade area, where most or all trade barriers among members are abolished, but where members continue to maintain their own individual tariff and trade policies with the rest of the world.) The EC has four major supranational institutions: the Commission, the Council, the Parliament, and the Court of Justice (each described in greater detail below).

The EC is a market of 325 million people with a total gross domestic product (GDP) of about \$4.6 trillion, slightly less than that of the United States and more than twice that of Japan. The EC 1992 process is intended to fully integrate the 12 EC members (Britain, Ireland, France, Germany, Belgium, Holland, Denmark, Luxembourg, Italy, Portugal, Spain, and Greece) into a single economic unit, with one set of rules for doing business. A unified EC is seen as a market able to link the capital resources of a Germany, France, or Netherlands with the labor resources of a Spain, Portugal, or Greece to create more efficient production and marketing opportunities. Against this background, other countries—in particular the United States and Japan—increasingly are looking to their own regional neighbors (especially Mexico for the United States and Southeast Asia for Japan) as production partners.

In 1988, the European Commission (in the so-called Cecchini Report) projected that eliminating barriers to trade within the EC would result in \$200–\$300 billion of economic benefits in the medium-term, create up to five million new jobs (though it acknowledged short-term job losses due to needed readjustments), lower average prices for consumers by 4.5 percent, and boost the GNP by up to seven percent. While these projections have been criticized as overly optimistic, the early signs are that EC 1992 is providing some immediate benefit: In 1989, the EC's GNP grew 3.7 percent, its highest growth rate in 14 years.

(2) *The Current Status of EC 1992.*—The EC 1992 process is implemented through passage of directives implementing various reforms. About 60 percent of the 282 total directives had been adopted by the Council at the time of the trip. The member states, which also must transpose some directives into national laws, have lagged behind the EC, with all 12 having completed implementing legislation on only 19 of the 108 directives that require national legislation. (The United Kingdom had implemented the highest percentage, Italy the lowest.)

At the time of the Senators' trip, among the most controversial issues still to be addressed were those most identified with inroads on national sovereignty: the harmonization of tax policies, the removal of border controls, and allowing the free movement of workers within the EC. In addition, beginning at an intergovernmental conference scheduled for December 1990, EC members were to begin discussions on the next steps toward creation of a monetary union and a single currency, a process formally separate from EC 1992.

(3) *How the EC Works*—

(a) *The Institutions.*—Three institutions have played a central role in the development of the EC 1992 program:

(1) *The Commission.*—The civil service of the EC (headed by 17 commissioners and divided into 23 directorates led by directors-general). Formulates and proposes legislation and then administers policies once they are adopted.

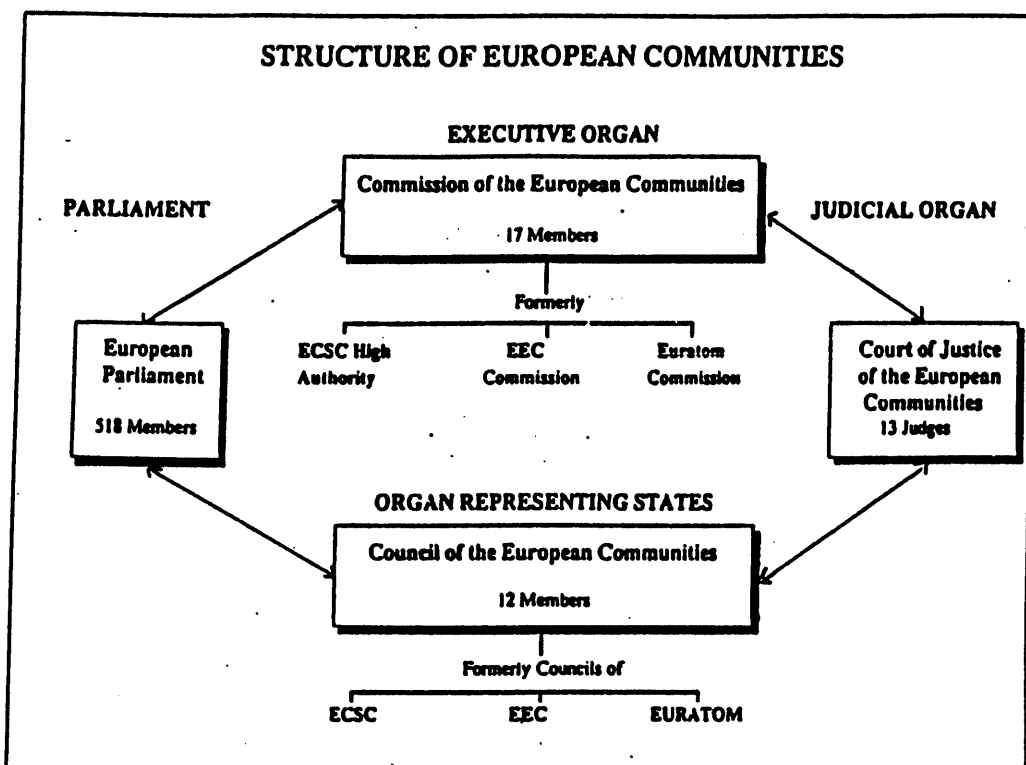
(2) *The Council of Ministers.*—Comprised of a senior official from each of the 12 members (each member state chairs the Council for a six-month period, which rotates alphabetically). Responsible for approving and enacting all EC legislation. Operates according to a weighted voting formula, with Germany, France, Britain, and Italy having the most votes.

(3) *The Parliament.*—Comprised of 518 directly-elected officials, its role was greatly enhanced by the Single European Act enacted in 1987. Has an advisory role prior to the adoption of legislation by the Council, and later can amend or reject budget and certain other legislation (whereby the Council can overrule this action).

In addition, the Court of Justice, consisting of 13 judges serving six-year terms, plays a role in determining compliance with the Treaty of Rome, member state conformity with EC legislation, and the resolution of disputes between other EC institutions.

(b) *The Structure—*

Chart 1.



(c) *The Procedures.*—The EC enacts legislation based on a complicated process involving the Commission, the Council, and the Parliament. Essentially, the Commission proposes legislation, which goes to the Parliament for various readings. The Council may adopt legislation approved by the Parliament through a qualified majority. (This is a weighted voting method under which there are 76 total Council votes, with 54 needed to approve and 23 to block action on a measure. The largest EC countries—Germany, France, Britain, and Italy—have ten votes apiece; Spain has eight; Belgium, Greece, Portugal, and the Netherlands five each; Denmark and Ireland three each; and Luxembourg two.) Where the Parliament has rejected or modified legislation, the Council may overrule it through a *unanimous vote*. Some EC 1992 measures take effect immediately on issuance in the member states. Others, however, take effect only when *transposed into national law* by all 12 members. This implementation process varies by country.

C. MAJOR U.S. CONCERNS ARISING FROM EC 1992

In 1988, substantial concern was raised in the United States whether EC 1992 would result in a Fortress Europe that would expand single-country trade barriers within the EC to cover all EC countries. In the past 2 years, the EC has responded to certain of those concerns and tensions have subsided. Nevertheless, several significant concerns remain, as discussed below.

(1) *Reciprocity*.—The reciprocity issue raises the question of what access the United States (or any other country) must give to the EC before the EC will give it reciprocal access. The debate has centered around two concepts: mirror image reciprocity versus national treatment. Mirror image reciprocity would require that the United States adopt the same rules as the EC to gain access to its market (e.g., the United States would need to adopt the EC banking system to gain reciprocal trade). Under national treatment (a long-established principle of the GATT), by contrast, the United States would merely need to afford EC and U.S. companies equal trading rights in the United States (e.g., U.S. banking rules would apply to U.S. and EC companies without discrimination).

Earlier EC draft directives would have applied mirror image reciprocity standards, but the EC has now moved closer to a national treatment approach. Still, certain EC directives, most prominently the Second Banking Directive and other measures covering financial services, do contain reciprocity language providing that, even if EC firms enjoy national treatment in another country, the EC still may negotiate to obtain comparable competitive opportunities as those provided in the EC to foreign firms.

While this is of less concern than the earlier mirror image language, it still will be important to ensure that the directives are not used to discriminate against foreign firms or to delay access to the EC market. For example, the EC could use the comparable competitive opportunities standard to demand that its banks be able to sell their services throughout the United States under a single national, rather than state-by-state, authorization (and thus receive treatment *better than* that presently accorded to U.S. firms). The failure of the United States to meet this standard could result in a loss of market access for U.S. firms in the EC. If a services agreement can be reached in the Uruguay Round that lays out clear principles to govern market access for foreign financial and other services firms, this could alleviate some remaining concerns about EC 1992.

(2) *Quantitative Restrictions*.—The EC needs to dismantle approximately 1000 national quantitative restrictions (QRs) by the end of 1992, because they will be unenforceable in a single EC market. Italy, France, and Spain, in particular, have long lists of national agricultural and industrial quotas that have to be dealt with as part of the EC 1992 process.

There is concern, however, that several existing national restrictions could be extended throughout the entire EC, whether in the form of existing QRs or instead as so-called gray area measures (such as voluntary restraint agreements)—at least for some transition period to give EC industries extra time to adjust to stronger competition.

One critical sector is automobiles, where five EC members currently have national quotas. At the time of the trip, the Commission had been seeking to negotiate an EC-wide voluntary restraint arrangement with Japanese auto producers beginning no later than January 1, 1993, though this effort had run into some problems due to intra-EC differences. The implications for the United States are important: because of stricter EC quotas, Japanese auto

penetration in the U.S. market *already* is three times larger than that in the EC.

The Commission has not yet indicated how it intends to deal with restrictions in several other sensitive industries, including consumer electronic products, footwear, steel, and textiles. Some prominent EC industrialists have called for transition arrangements in sensitive sectors to preserve the position firms and workers have enjoyed under national QRs.

(3) *Local Content/Rules of Origin*.—Another central issue concerns what types of production operations must be performed in the EC in order for a product to be considered made in the EC, and therefore receive preferential treatment within the EC market. This raises two related questions: Is the EC insisting on minimum levels of local content, and is the EC modifying traditional rules used for determining a product's origin?

The best-known recent example of a local content requirement is the Television Broadcast Directive, adopted in October 1989, which stipulates that the majority of television programs broadcast in the EC should be of European origin—and thus acts as *both* a quota and a local content restriction. (The directive does not impose a mandatory content restriction, but already France has imposed a much more restrictive broadcast requirement.)

Local content requirements also have arisen in the context of antidumping and subsidy investigations. Most notably, the EC in 1988 adopted a so-called screwdriver rule for certain EC assembly operations, which requires a minimum percentage of local content to avoid the extension of antidumping duties to such operations. For example, if there already were a duty on Japanese-made copying machines, this duty also would reach machines assembled in the EC from Japanese parts, unless more than a fixed minimum percentage of content came from the EC (*i.e.*, unless more than simply screwdriver assembly operations were performed). There is also a significant local content restriction in the major EC procurement directive, discussed in more detail below.

With respect to rules of origin, at present there are no harmonized international rules on what qualifies a product as coming from a particular country, though it is hoped that negotiations in the Uruguay Round will at least begin the harmonization process. In the meantime, the EC's use of rules of origin will have a significant impact on the ability of U.S. firms to do business in the Community.

How a product's origin is classified directly affects how goods entering the market are treated for customs purposes, and whether they are subject to quota arrangements and antidumping duties. Changes in rules of origin can require that additional manufacturing operations be performed to qualify as of local origin, thus in turn influencing decisions on where to invest and locate facilities. For example, U.S. semiconductor and computer manufacturers shifted additional production to the EC in the past year to meet local content requirements.

(4) *Technical Standards*.—One of the most technical but also most important elements of EC 1992 is the harmonization of standards that products and processes must meet to be sold in the EC after 1992. More than half of the directives listed in the 1985 White

Paper relate to standards, and standards (ranging from product design to environmental requirements to labeling) can act as a significant barrier to market access—particularly if they are based on non-scientific criteria.

Among the sectors most likely to be affected are pharmaceuticals, chemicals, information technology, telecommunications, biotechnology, medical products, food products, and construction equipment. For example, standards covering construction products and requiring that such products be “fit for their intended use” will affect the technical characteristics of numerous U.S. timber, concrete, masonry, and steel products. Specifically, the standard on timber structures mandates a grading system for wood that is very different than U.S. methods, classifies U.S. timber as a weaker class of wood, and thus could dominate the EC market for U.S. structural timber.

By the time of the Senators’ trip, the U.S. Government and U.S. business had gained greater access to the EC standards-setting process. However, significant concerns remain that the EC’s policy for *recognition* of product testing and certification procedures may disadvantage U.S. firms. If the EC is not willing to accept outside test results for purposes of validating conformity with its standards requirements, this may delay the ability of U.S. firms to sell their products in the EC. Development of clear principles for mutual recognition of testing and certification will be essential for non-EC producers to have effective access to the EC market.

(5) *Government Procurement*.—EC public procurement is an estimated \$600 billion market, historically dominated by national firms for whom the process was tailor-made (with less than two percent of contracts going to non-national firms and only 20 percent subject to any open tendering procedures).

At the time of the delegation’s trip, it appeared that the EC 1992 objective of establishing new rules to govern this lucrative market might yield mixed results for U.S. firms. On the one hand, the EC is in the process of extending its procurement rules to previously excluded sectors—water, telecommunications, energy, and transport—so that these sectors will be open for international bidding. This could offer substantial new business opportunities for U.S. firms, particularly in heavy electrical equipment, environmental treatment, and other capital goods sectors.

On the other hand, the directive would apply a standard that favors EC over non-EC firms, by creating a price preference for those firms that utilize more than 50 percent EC content. (An EC-sourced bid that comes within three percent of the lowest non-EC bid must be awarded the contract.) U.S. firms are concerned that this content standard will limit their ability to increase access to the EC procurement market without having to invest in additional facilities in the EC, and will discourage many from even submitting bids.

(6) *Merger Rules and Competition Policy*.—EC 1992 has been accompanied by a significant increase in the number of mergers and acquisitions, as well as joint ventures, within the EC. There were over 1,300 cross-frontier mergers and acquisitions in the EC in 1989, and 600 more in the first 5 months of 1990 alone (compared with under 1,000 such deals for the *entire* 1976–86 period).

New merger rules, effective September 1990, give the Commission sole authority to approve or block most large-scale mergers. The new rules lay out three criteria for determining when a merger has a Community dimension that gives the EC sole authority:

- (1) The companies must have a combined worldwide turnover of at least five billion ECUs (the basket currency of the EC, with one ECU currently valued at about \$1.33);
- (2) Turnover within the EC of at least 250 million ECUs for two or more of the companies involved; and
- (3) The parties do not all do two-thirds or more of their business in a single member state (in which case the merger would remain subject to that member state's control).

By unifying the authority for handling large mergers in the EC (*i.e.*, creating one-stop shopping), this new regulation should promote greater business certainty. One potentially controversial aspect of the rule, however, is that it requires EC approval of the merger of EC operations of *non-EC* firms (there is no provision that one or more of the parties must be headquartered in the EC, and the Community dimension criterion does not exclude mergers of operations located mainly outside the EC).

In addition, it will be necessary to monitor implementation of the regulation to ensure that it is not used as a form of industrial policy, given catch-all language in the regulation referring to other legitimate interests (aside from traditional competition law criteria) as a basis for blocking business agreements. There are concerns that the Commission could reach beyond traditional antitrust principles to prevent mergers that threaten the established competitive structure of companies within the EC.

D. EUROPEAN MONETARY UNION

The concept of monetary union within the EC is seen as a test of member states' commitment to a fully integrated Europe, in which all monetary policy eventually would be coordinated by the EC. EC President Jacques Delors has been one of the strongest proponents of economic and monetary union (EMU), which he and others claim would result in approximately \$20 billion annually in direct, transaction cost savings.

There is already a certain degree of monetary policy integration through the European Monetary System (EMS), established in 1979. This is achieved through a basket currency, the ECU, and an exchange rate mechanism (ERM). Under the ERM, national currencies are allowed to fluctuate only within a narrow 2.25 percent band from the ECU value. British sterling recently became part of the ERM, and along with the Spanish peseta can float somewhat more freely (a wider six percent band), while Greece and Portugal still are not members.

EMU would go well beyond this, however. In April 1989, a high-level committee chaired by Delors published a report setting out a three-stage process for monetary integration:

- (1) *Stage One*.—Free capital movement within EC through elimination of national exchange controls (became

effective July 1, 1990, although Greece, Ireland, Portugal, and Spain have more years to lift capital controls). Closer cooperation among members' central banks on macroeconomic policies (beyond maintenance of exchange rate parities). Amend Treaty of Rome to allow for full monetary union. Intergovernmental conference scheduled for mid-December to set out EMU plans in more detail.

(2) *Stage Two*.—Establish as first key step a European central bank system (EuroFed) to coordinate levels of national money supply and monitor national monetary policies. Narrow the exchange rate band; EC to issue macroeconomic guidelines for members. Timetable for beginning Stage Two was expedited at October 28 EC heads of state meeting: with only Britain in opposition, leaders set out commitment to begin by January 1, 1994 at latest.

(3) *Stage Three*.—Irrevocably fix exchange rate parities. Eventual replacement of national currencies by a single European currency (ECU or another). Full control of EC's central bank over international monetary policies. Goal is to begin by 1997 and complete by the end of the century.

E. U.S.-EC BILATERAL ISSUES

In addition to the issues presented by EC 1992 and the plans for broader European economic and political integration, there were at the time of the trip a number of other issues of concern to the Senators. These included:

(1) *Agriculture*—

The EC Common Agricultural Policy (CAP).—The CAP was established in the Treaty of Rome in 1957 to integrate national agricultural policies into a single EC-wide system. In practice, the CAP has guaranteed farmers (and consumers) such high prices that production has increased more than consumption, resulting in surplus stocks that have been disposed of through costly export subsidies.

Until the 1992 exercise is completed, the CAP represents the only truly common policy of the 12 member states. They share its expense through a common budget. Total EC agricultural expenditures, which amounted to \$40.8 billion in 1989, consume more than two-thirds of the EC's total budget.

(a) *Description of the CAP*.—As reflected in Chart 2, the basic mechanisms of the CAP are:

(1) *Common Support Prices*.—The EC Council annually sets a minimum target price that farmers should receive for each agricultural product covered by the CAP. To achieve the target price, the EC Council also sets an intervention price at which the EC intervention authorities are legally bound to buy products offered. This is the basic mechanism by which the EC guarantees farm income.

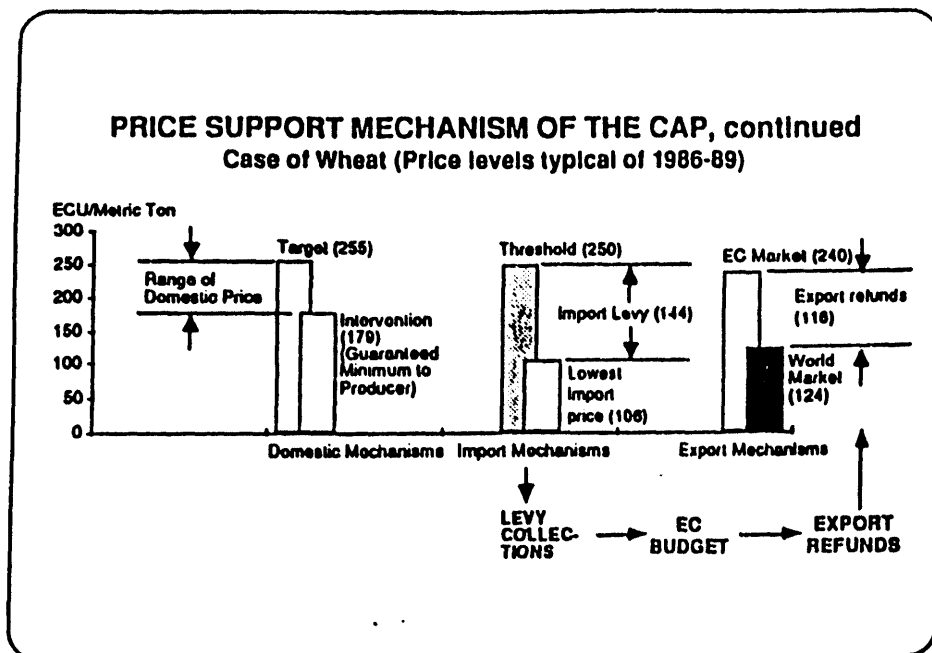
Support prices under the CAP cover a broader range of products in the EC than U.S. price support programs cover in the United States. Support prices in the EC cover more than three quarters of EC agricultural production, including grains, dairy products, sugar, livestock, oil seeds, and wine.

Because one goal of the CAP is to establish common pricing on agricultural products throughout the EC, the target and intervention prices are set in European Currency Units (ECUs), a basket of EC currencies. However, exchange rate volatility in the late 1960s led to the establishment of a special system of green rates of exchange exclusively for the purpose of converting these agricultural prices from ECUs to national currencies. Green rates, which are set by national governments, minimize the impact of daily exchange rate fluctuations on agricultural producers. To prevent distortions as a result of the price differences that may be created between countries by the green rate system, border measures between EC countries are assessed in the form of taxes on exports and subsidies on imports. These are referred to as Monetary Compensatory Amounts (MCAs). MCAs are approximately equal to the difference in the intervention prices between countries. To some extent, therefore, the green rate system, while stabilizing farm prices, has undermined the EC's goal of common agricultural pricing and increased the cost of the CAP.

(2) *Common Import Levies.*—To prevent imports from undercutting EC support prices, the CAP also establishes a threshold price, or minimum import price, below which imports may not enter the EC. To enforce the threshold price, a variable levy, or tariff, is assessed on imports. The variable levy is set by EC authorities, either on a daily or weekly basis, and equals the difference between the lower world price and the higher threshold price. Thus, the variable levy guarantees that imported products will be at least as expensive as EC products. It effectively closes the EC to import competition on most products. The major exceptions are soybeans and non-grain feed substitutes (primarily corn gluten feed), products on which the EC agreed to bind its tariffs at zero in previous GATT negotiations, and therefore cannot legally apply a variable levy.

(3) *Export Subsidies.*—With high support prices and import barriers, the EC has become a surplus producer of most agricultural products. Unlike the United States, the EC has not emphasized programs to reduce production (although recent reforms include such measures) or to stock it when market prices fall. To dispose of surpluses, the EC provides export subsidies, known as restitution payments, to EC farmers to allow them to export their products at world prices. Restitution payments equal the difference between the internal EC market price for a commodity and its lower world market price.

Chart 2.

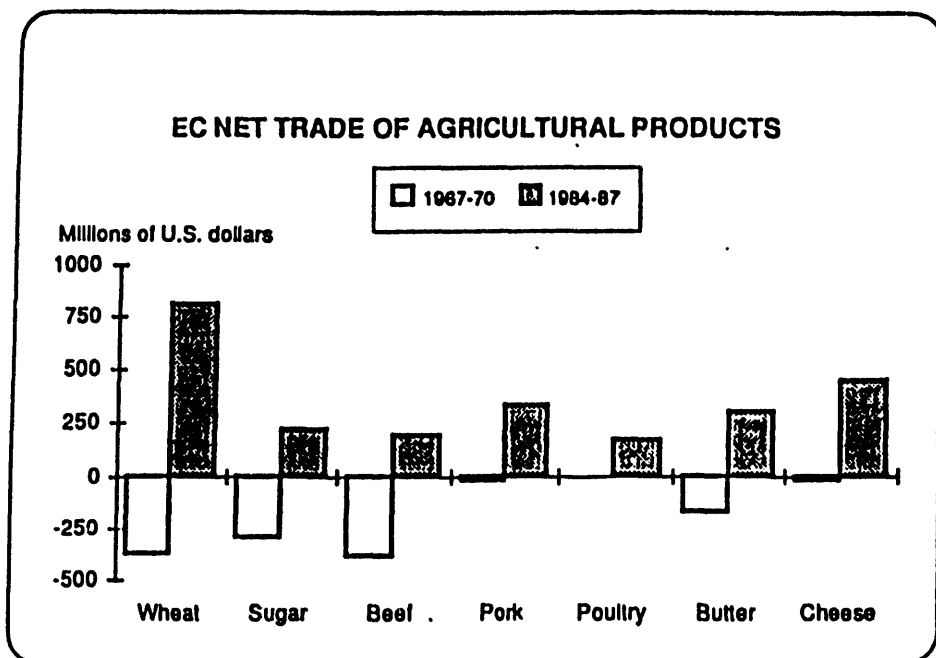


The Basic Mechanisms of EC Farm Policy, USDA

(b) *Impact of the CAP.*—Within the EC, the CAP has provided a strong incentive for investing in agriculture, and thus has resulted in significant productivity increases. For example, EC grain production increased 93 percent between 1960 and 1988. At the same time, high prices to consumers have slowed the growth in consumption relative to production. The result has been increased self-sufficiency in many products. For example, EC self-sufficiency between the late 1960s and the late 1980s increased from 94 to 128 percent in wheat, 81 to 121 percent in sugar, and 91 to 103 percent in butter.

Increased self-sufficiency has switched the EC from being a net importer to a net exporter of many agricultural products, as demonstrated in Chart 3.

Chart 3.



The Basic Mechanisms of EC Farm Policy, USDA

The CAP has also had a negative impact on EC consumers. Because of the CAP's impact on prices, EC consumers pay significantly more in food costs than U.S. consumers. USDA estimated that EC consumers paid \$40 billion to support farmers in 1989 through high prices. Consumer transfers in the United States totaled less than \$15 billion based on 1986 figures, food costs account for double the percent of total expenditures for the EC consumer than for the U.S. consumer. (According to USDA, food expenditures account for 10 percent of U.S. personal consumption, while they account for nearly 20 percent of EC personal consumption.)

For the United States, the existence of the CAP was not a serious source of tension with the EC until the 1980s, a decade marked by a reversal of 30 years of generally favorable trends for U.S. agriculture. For the 30 years prior to the 1980s, U.S. agricultural output grew at the rate of two percent per year while U.S. agricultural export volume grew at the rate of 5.5 percent per year. Agricultural trade boomed particularly in the 1970s, as U.S. agricultural exports increased from \$12.9 billion in 1972 to \$43.8 billion in 1981. With per capita domestic food consumption in the United States basically unchanged for several decades, foreign markets became more and more important to U.S. farmers. The proportion of U.S. farm production exported increased from about seven percent in the early 1950s to a peak of 24 percent in 1981.

In the 1980s, however, the bottom fell out of the agricultural export market for U.S. farmers. Between 1981 and 1986, U.S. agricultural exports declined 40 percent to a low point of \$26.3 billion. Many factors contributed to that decline, including a worldwide re-

cession, a sharp appreciation of the U.S. dollar, and high price support levels set in the 1981 farm act.

The CAP also contributed to the decline in U.S. exports. In the early 1980s, the EC, a major market for the United States in the past, became a fierce competitor in world commodity markets, especially for grain. The result was lost sales for U.S. farmers both in the EC and in third countries. USDA estimates that the CAP cost U.S. farmers \$7.2 billion in lost export sales in 1986. U.S. agricultural exports to the EC declined more than 40 percent, from \$11.1 billion in 1981 to \$6.6 billion in 1986. During the same period, the EC's exports to the United States increased from \$2.5 billion in 1981 to \$4.3 billion in 1986.

The effect of the early 1980s was that U.S. net farm income declined significantly despite increased Government payments. Net farm income was on average 30 percent lower in real terms during the 1980s than in the 1970s. The proportion of income due to Government payments rose from ten percent in the 1970s to 27 percent in the 1980s. Total U.S. Government expenditures on agricultural programs increased nearly threefold, from \$11.3 billion in 1981, when exports peaked, to \$31.4 billion in 1986, when exports hit their low point.

U.S. agricultural exports worldwide have recovered since 1986. In 1989, they reached \$40 billion. However, U.S. agricultural exports to the EC have not shared in this recovery—they have remained stagnant. Most of the loss has come in bulk commodities, particularly grains and soybeans. (In 1989, the five top U.S. agricultural exports to the EC were as follows: soybeans, \$1.6 billion; feeds, \$1.1 billion; tobacco, \$563 million; cotton, \$321 million; and feedgrains and products, \$286 million.) USDA attributes the loss of exports largely to the EC's mounting commodity surpluses built up as a result of the CAP and its liberal use of export subsidies to dispose of the surpluses. The U.S. agricultural trade surplus with the EC which amounted to \$8.6 billion in 1980 was 73 percent lower in 1989, at \$2.3 billion.

(c) *Cost of the CAP and Efforts at Reform.*—In the 1980s, the rapidly escalating cost of the CAP has raised budgetary concerns within the EC, in addition to trade tensions, thus creating pressure to reform the CAP. CAP expenditures increased from \$8.1 billion in 1975 to \$25.9 billion in 1980. The EC began making structural changes in the CAP, for example, by applying production quotas, price stabilizers, and co-responsibility (producer) levies. The aim of these measures has been to contain the growth in the agricultural budget and give the market a larger role in guiding production. Moreover, in February 1988, the EC Finance Ministers pegged annual increases in the basic CAP budget to 74 percent of the annual increase in the EC's GNP (meaning about two percent per year). The objective was to reduce the cost of the CAP from two-thirds of the EC budget to one-half by 1992.

According to USDA, the impact of these reforms on over-production has been marginal to date. In addition, despite the efforts to contain the CAP's cost, it has continued to escalate. It reached \$30.1 billion in 1989 and, according to USDA estimates, will amount to \$36.3 billion in 1990.

(2) *Airbus*.—Airbus Industrie (AI) is a consortium of companies that includes Aerospatiale of France, Deutsche Airbus of Germany, British Aerospace of the U.K. and Construcciones Aeronauticas SA (CASA) of Spain. The governments of the member companies, who are signatories to agreements among themselves regarding their commitments to AI's civil aircraft programs, have disbursed total support of over \$8.2 billion to the member companies of the consortium, and have pledged an additional \$2.3 billion for new aircraft development. The German Government has also committed an additional \$3 billion in supports in connection with the privatization of Deutsche Airbus (now controlled by Daimler-Benz as a result of its merger with Messerschmitt-Bolkow-Blohm). If AI had to pay commercial rates for its net government support, the total funds committed would be valued at an estimated \$25.9 billion.

In addition to the direct support, Airbus member companies have allegedly given political and economic inducements to foreign governments to encourage third-country sales. These practices have given Airbus, which competes directly against Boeing and McDonnell Douglas, an unfair advantage over U.S. producers. A study prepared for the Commerce Department and released in September 1990 stated that none of the Airbus programs have been or will become commercially viable in the foreseeable future, and that a privately-financed firm would not have invested in any of the Airbus programs because none of them would show sufficient profits.

Despite the strong market for commercial aircraft, U.S. aircraft manufacturers are deeply concerned about the Airbus program. EC governments subsidize the bulk of Airbus' research and production costs, while U.S. firms have to bear full market risks. Airbus' below-cost sales have also put extreme price pressures on U.S. manufacturers, eroding their profit margins and cutting into their R&D budgets.

The United States has held talks with the EC on Airbus since 1984, but none of the outstanding issues has been resolved. These include:

(1) The overall level of production subsidies (currently about 70 percent of development costs).

(2) The German Government's exchange rate guarantee scheme, offered as part of the plan to privatize Deutsche Airbus. The scheme stipulates that Germany will insure against exchange rate losses without charging interest or a sufficient premium for the monies advanced.

(3) The recent \$500 million loan to Northwest Airlines arranged by Airbus in connection with Northwest's purchase of 75 new A320s. Though financial incentives are common in connection with aircraft purchases, the proceeds of the loan to Northwest are reportedly not directly linked to the delivery of the A320s.

By the time of the Senators' trip, little progress had been made in talks between the United States and EC.

(3) *Wine Dispute*.—In February 1990, the FDA barred imports of certain wines from France and Italy because inspectors detected traces of a fungicide—procymidone—that had not been registered

with the U.S. FDA. By October 1990, the FDA had detained over 200 kinds of European wines to test for the fungicide.

Procymidone is manufactured by the Japanese company Sumitomo, which has submitted test data to the FDA to begin the registration process. Although the FDA agreed, at EC insistence, to move procymidone to the top of the list of chemicals seeking registration, it also determined that the data provided by Sumitomo was inadequate. The need for additional testing has prolonged the registration process; the FDA has stated that the process will not be completed until June 1991, at the earliest.

The EC has claimed that the FDA ban blocks \$200 million in wine sales, one-fifth of total EC wine shipments to the United States.

(4) *Soybeans and Rebalancing.*—In December 1989, a GATT panel ruled in favor of the United States regarding the U.S. complaint that EC subsidies on the production and processing of oilseeds (e.g., soybeans, rapeseeds, and sunflower seeds) and related animal feed proteins (e.g., corn gluten feed) violated the GATT. The case, initiated by a section 301 petition filed by the American Soybean Association (ASA), rested on two claims:

(1) That the EC subsidy for processing domestic, but not imported, oilseeds violated the GATT's non-discrimination national treatment requirement, and

(2) That the subsidy nullified the benefits to the United States of the EC's commitment, made during the Kennedy Round of tariff negotiations in 1962, to bind its tariff on soybeans at zero.

ASA has stated that the value of lost trade due to these subsidies is at least \$1.5 billion annually.

When the EC agreed to the 1962 tariff bindings, there was little production of oilseeds in the EC and therefore it was not concerned about protecting domestic producers. However, as the CAP drove up EC prices for cereals and feed grains, like wheat and barley, demand grew for cheaper substitutes, like oilseeds. EC imports of oilseeds, particularly U.S. soybeans, grew in response. Seeing this as undercutting the CAP's support for cereals, the EC instituted production and processing subsidies on oilseeds in the late 1960s and 1970s to develop EC oilseed production. As long as the EC cannot institute a variable levy on oilseeds to keep imports out because of the 1962 tariff binding, direct subsidies for EC oilseeds have been their only way to counter the imports. This is why the GATT ruled that the subsidies basically nullified the benefits of the EC's 1962 commitment on tariffs.

After the GATT panel ruling, the EC agreed, in January 1990, to bring its oilseed subsidies policy into conformity with the GATT "within a reasonable period of time." The U.S. Government expects the required legislative changes to be made by early 1991. However, the EC has stated that implementation of the GATT panel requirements will be done with an eye on the Uruguay Round results.

In the interim, the EC has seized the opportunity provided by the Uruguay Round negotiations on agricultural trade—where all agricultural trade policies are on the table—to push its rebalancing.

proposal. Under the rebalancing scheme, the EC has said that reductions of support and protection on some commodities, namely cereals, must be accompanied by an increase in protection (*i.e.*, tariffs) for cereal substitutes and oilseed and thus plug what it sees as a hole in the CAP. The EC proposes to introduce duties on these products, including soybeans, over a six-year period, in direct violation of its zero tariff binding.

In short, the EC views the negotiations as providing an opportunity to free itself from the tariff bindings on soybeans. This proposal could negatively affect American oilseed producers as much as the illegal subsidies that the EC has been told to eliminate.

(5) *EC Enlargement*.—When Spain acceded to the EC in 1986, the CAP system of variable import levies was applied to imports of agricultural commodities (corn, sorghum and corn gluten feed) from the United States. This action, which violated Spain's GATT obligations (tariff bindings) increased the prices of U.S. products in the Spanish market and sharply decreased sales.

To compensate U.S. producers, the United States and the EC negotiated an agreement in 1987, the U.S.-EC Enlargement Agreement, under which the EC agreed to ensure annual imports of corn and sorghum into Spain of two million and 300,000 metric tons, respectively. The agreement was due to expire at the end of 1990. At a negotiation held just before the Senators' trip, the EC informed the United States that it would not renew the agreement, which covers some \$400 million in U.S. exports. The United States has told the EC that the United States would pursue its GATT rights. Negotiations continued after the Senators' trip, and the EC ultimately agreed to extend the agreement through December 1991.

(6) *Telecommunications*.—The EC market for telecommunications equipment totaled about \$22 billion in 1988; more than half of the purchases are made by government-owned telecommunications administrations (PTTs). U.S. telecommunications equipment exports to the EC totaled \$1.18 billion in 1989, with imports from the EC reaching \$384 million. The EC's market for telecommunications services was even larger—about \$50 billion. U.S. exports to the EC of telecommunications services are valued at about \$840 million annually.

Many EC member states restrict access to their telecommunications markets. France, for example, discriminates against foreign companies in the procurement of highly sophisticated network transmission and switching equipment, industries in which U.S. firms are most competitive. Its procurement of network equipment in particular is governed by a closed bidding procedure. In addition, U.S. firms are not permitted to participate in the French telecommunications standards-setting process and France does not accept U.S. test data for terminal (customer-premises) equipment.

In the U.K., which has one of the most open telecommunications markets in the world, the procurement of network equipment is open to international competitive bidding, but the buyers (two private networks) tend to favor local manufacturers. Buy-national policies are even more pronounced in other EC member states. Certain member states also impose restrictions on foreign firms that provide value-added services like electronic voice mail.

In 1988, the Community began to issue a series of directives to integrate the EC telecommunications market and harmonize telecommunications testing and certification standards EC-wide. U.S. companies want to make certain they will be able to participate fully in the integrated telecommunications market. They are concerned that EC-wide barriers may replace the barriers that individual countries had maintained.

In January 1989, the U.S. Trade Representative (USTR) announced that the EC (and Korea) had been designated under the telecommunications trade provisions of the 1988 Trade Act as "priority countries."¹ USTR conducted two rounds of negotiations with the EC in 1989, and, in February 1990, the President decided to extend the negotiations for another year, on the grounds that the EC had progressed in liberalizing its telecommunications trade. The third round of negotiations was held in late September 1990.

The United States has proceeded on two different fronts:

(1) Bilateral negotiations with the EC as a whole on how the EC's single market directives will affect U.S. companies; and,

(2) Negotiations in the Uruguay Round to extend the GATT to cover telecommunications purchases by European PTTs and private companies.

The key issues have included:

(1) Procurement.—Purchases of equipment and software by public and privately-owned network operators would be open to international competition. However, network operators would be permitted to *exclude* offers containing less than 50 percent EC content, and would be required to grant a three percent price preference to equivalent offers containing at least 50 percent EC content *unless* comparable (reciprocal) access has been negotiated for EC suppliers to foreign government procurement.

(2) Mutual Recognition of Type Approval.—Every member state has different procedures for approving customer-premise equipment (telephones, keysets, PBXs). The goal is to harmonize these procedures. The relevant directive allows the EC to negotiate reciprocal acceptance of test data with third countries, but the EC has said that negotiations with the United States cannot begin until the directive is formally adopted.

(3) Enhanced Services.—Most enhanced services (including voice mail and services involving computer processing) will be open to competition, but the EC will continue to require that providers be licensed (instead of merely registered as in the United States).

¹The Act required USTR to identify "priority foreign countries" based on the country's trade barriers and the export opportunities for U.S. firms. The USTR was required to develop specific negotiating objectives for each identified country. If the objectives are not achieved (the Act provided that the negotiations must be concluded within 18 months of enactment of the Act, but could be extended for no more than two one-year periods if the President finds that substantial progress is being made), the President is required to take whatever actions are "appropriate and most likely to achieve the general negotiating objectives of the law," including actions under section 301, the termination or suspension of trade agreements on telecommunications, or actions relating to Federal purchases of telecommunications products.

(4) Elimination of Preferential Supplier Relationships Between PTTs and National Companies.—Progress has been made. In 1988, there were about 60 such relationships. Today, there are six (four involving Belgian companies and two involving Spanish companies).

IV. SUMMARY OF VISITS

The schedule of visits on the trip and a summary of these meetings are as follows:

A. MONDAY, NOVEMBER 5--LONDON

(1) *Meeting with Peter Lilley, British Secretary of State for Trade and Industry.*—Senator Bentsen began the meeting by expressing concern regarding the failure of the EC to make progress in the agricultural negotiations. He noted the proposal put forth by Commissioner MacSharry was not sufficient as it called for only a 30 percent cut in agricultural subsidies from a 1986 base, which represented a year in which EC subsidies were unusually high. He noted that the United States had just reduced its agricultural budget spending by \$13 billion, which represented a larger cut than the MacSharry proposal envisioned. However, he also noted that the U.S. budget bill required the restoration of spending regarding export subsidies in the event a Uruguay Round agreement is not reached. He expressed dismay that the MacSharry proposal focused only on internal subsidies, not on export subsidies or on market access barriers.

Secretary Lilley made the point that Britain is not alone within the EC in arguing for agricultural reform. He argued that the Netherlands and Denmark, among others, also are supportive of the British position. Secretary Lilley expressed the hope that the U.S. position would be more liberal with regard to maritime industry barriers by permitting these barriers to be the subject of negotiations. He also argued that the United States should seek to reduce its textile tariffs.

Senator Bentsen responded that since the beginning of the 1980s growth in textile imports from developing countries has been twice the rate in the United States as it has been in the EC. Senator Danforth added that the maritime concern is a significant political problem in the United States and would not be easy to address in the new Round.

Secretary Lilley asked Senator Bentsen his views about Mexico. Senator Bentsen responded by outlining the reforms and success of the Salinas Government. However, he noted that negotiation of a U.S.-Mexico free trade agreement would raise particular concerns because of Mexico's low wage rate relative to the United States and cultural differences between the United States and Mexico.

Senator Danforth raised the issue of EC subsidies to Airbus. Secretary Lilley expressed the view that the United Kingdom is trying to limit Government funding for Airbus and that the U.K.'s major concern is exchange rate guarantees provided to Airbus by Germany in the context of privatization. Secretary Lilley also asserted that the United States provides support for its aerospace aircraft industry through military procurement. However, Senator Dan-

forth noted that the United States is scaling down its military spending, thereby reducing this form of expenditure, even if it could be construed to be a form of subsidy, which he felt it was not.

Senator Daschle questioned the timing of the EC announcement to ban imports of pork and beef and noted that the announcement was troubling in the context of the GATT Round. Treasury officials noted that the Government is aware of the U.S. concerns and is willing to discuss them.

(2) *Lunch with the American Chamber of Commerce.*—After initial remarks by Ed Streator, President of the American Chamber of Commerce in London, Senator Bentsen expressed concerns about the extent of foreign lobbying within the United States. He recognized the United States will be in need of foreign capital due to its large budget deficit. He also noted that the collapse of the Japanese stock market and other international developments made U.S. reliance on foreign capital more tenuous. However, he indicated that the recent U.S. budget agreement suggested the United States is meeting its challenges of deficit reduction and reducing its need for foreign capital.

There was a general discussion of the Uruguay Round. Senator Bentsen speculated that if the Uruguay Round failed it would result in increased protectionism and a decreased standard of living worldwide. Senator Danforth indicated that he believed there would be an increase in regional trading blocs, although he remarked that this development might occur anyway. He recognized the importance of the Uruguay Round, suggesting that resolving individual trade differences is important, but he also noted that it may be more important whether world markets in general move to a market-oriented approach. One guest noted that the United States needs to encourage U.S. exports as much as other countries promote their own exports. Senator Daschle noted that the exception is U.S. agriculture where the U.S. Government is quite involved in promoting exports. Senator Bryan noted that most of the concern in the United States regarding investment is focused on Japanese investment, not investment from Britain.

(3) *Meeting with John Major, British Chancellor of the Exchequer.*—Chancellor Major began the meeting by applauding the U.S. Government for reaching its recent budget agreement. He noted that it was handled with skill and seriousness of purpose. Senator Bentsen remarked that the two branches of Government had together reached the \$500 billion budget agreement, which was unprecedented in American history. He noted that it had been well received within the country during his recent visits to Texas. Chancellor Major questioned how the U.S. budget process might be made to operate more efficiently. Senator Bentsen responded that two reforms had been put in place. First, all future programs would need to be enacted on a "pay-as-you-go" basis. Second, he noted that some accounting within the budget process had been transferred to the Office of Management and Budget, which raised some concerns on his part.

Senator Danforth raised the issue of EC subsidies to Airbus. He noted that Britain has been a greater advocate for market-oriented reform than other EC countries, but he wondered how Britain would persuade the other EC members to reduce subsidies. Chan-

cellor Major indicated that there had been some concern expressed in years past by Americans about whether Europe would become a Fortress Europe. He noted that Britain opposes such an approach, but that it must continue "hard-pounding" on other EC countries to ensure free trade.

Senator Daschle raised the issue of the recent beef and pork ban on U.S. exports to the EC and expressed his concern about EC protectionism. Chancellor Major expressed the view that there would always be irritants between the United States and Britain, but that the general trend was in favor of free trade. Chancellor Major then began a long discussion of Britain's view of monetary integration within Europe. He noted that the divergence of views between EC nations is less extreme than it might appear publicly, and that countries outwardly supporting expeditious integration of Europe's monetary systems might in fact harbor some doubt. He explained that Britain favored establishing a "parallel currency" that would operate alongside national EC currencies. He expressed the view that Britain was focused more directly on the precise steps that would need to be taken toward monetary union, whereas other countries had not shown such attention to such details, permitting them to put forward proposals that appeared sound at first blush but had not been fully fleshed out. He argued that the British proposal would be extremely disinflationary and would also mitigate the negative effect of establishing a common currency when countries have different levels of social programs.

There was then a general discussion of the economies of the United States and Britain, with general agreement the economies of both countries were slowing down. Chancellor Major made the point that failure to reach a successful Uruguay Round agreement would be extremely harmful to the economy of Britain and the EC in the long run. He also argued that an insubstantial agreement would not hold up to scrutiny and would not be successfully received in Britain.

(4) *Meeting with Douglas Hurd, British Foreign Minister.*—Senator Bentsen began the meeting by thanking Minister Hurd and the British people for the support Britain has shown America in the Persian Gulf in recent months.

Regarding the Uruguay Round, Senator Bentsen noted that there was considerable concern within the Senate regarding the Uruguay Round. He noted that 37 Senators recently supported a resolution to deny the Uruguay Round fast-track treatment when an agreement returned to the U.S. Senate. He noted that the resolution was supported on a bipartisan basis and that it represented a serious obstacle to continuation of the negotiations if a successful agreement were not concluded.

At this point, there followed a discussion of the Persian Gulf conflict, including a discussion of the political situation in Iraq, the military and diplomatic options available to the United States and Britain, and public attitudes toward the conflict in both countries.

B. TUESDAY, NOVEMBER 6—BRUSSELS

(1) *Meeting with Frans H.J.J. Andriessen, EC Vice President and Commissioner for External Relations and Trade Policy.*—Vice

President Andriessen began the meeting by indicating that it would be very difficult for the EC to make concessions in relation to its agricultural programs. He indicated that the Uruguay Round had set more ambitious goals than past GATT rounds and that the negotiators need not achieve all their goals, but that there must be substantive proposals that make true progress in opening markets worldwide. Vice President Andriessen also asked the delegation whether the MacSharry proposal was acceptable. Senator Danforth responded that there were many elements of the proposal that were not acceptable, such as rebalancing and the simple 30 percent cut in internal supports from a 1986 base year.

With regard to U.S. congressional consideration of an agreement, Senator Bentsen mentioned the resolution introduced by 37 Senators in the U.S. Senate calling for repeal of the fast track authority with regard to the Uruguay Round. He indicated that it would be very difficult to extend the negotiations beyond March 1, 1991, given this opposition.

Senator Danforth indicated that the U.S. Administration has presented agriculture as the acid test of a successful Uruguay Round agreement. He noted that the recent reductions in U.S. farm programs were conditioned on increased exports, including through a successful Uruguay Round agreement. Vice President Andriessen responded that a complete elimination of agricultural subsidies, as envisioned in the U.S. proposal, would mean a complete elimination of the CAP in the EC. He argued that this was the perception by many in the EC of the U.S. proposal and that it would be impossible to accept it, although he also noted that he had made the point to some EC farmers that they would eventually need to take some specific action with regard to EC export subsidies.

Senator Bentsen then indicated that the EC must develop the political will to make concessions on agriculture. He argued that he never thought he would see the Congress put together a nearly \$500 billion package of budget cuts just prior to a U.S. election. However, he noted, that is exactly what the U.S. Congress had just succeeded in doing. He indicated if the United States could show that kind of political resolve, the EC should try to do so as well.

The delegation then began a discussion of various bilateral issues, including the recent ban on U.S. pork exports by the EC, the prosymidone controversy, and the Airbus controversy. Senator Danforth indicated his fear that the Airbus consortium would be the paradigm for the future in terms of EC subsidization of industry. Vice President Andriessen responded that the EC is willing to consider trade distorting aspects of subsidies. However, he indicated that the United States believes that subsidies are trade distorting per se, a view the EC does not share. He indicated that the EC desires the ability to develop regional programs that are subsidized and that Airbus is not a model for the EC subsidy program. He indicated that the EC has made progress with the Administration in bringing down the range of permissible subsidies and he pledged to negotiate with the United States further.

The delegation and Vice President Andriessen then discussed a variety of issues including intellectual property, telecommunications policy, and government procurement. Vice President Andries-

sen indicated that there were differences between the United States and the EC regarding intellectual property protection, and he expressed the hope that the two countries could work out their differences. With regard to government procurement, Senator Bentsen indicated that the United States is concerned about the inability of U.S. companies to enter the EC telecommunications and electricity government procurement market. Vice President Andriessen acknowledged the U.S. concern, but also mentioned that the EC has concerns about U.S. Government procurement policies at the state level.

C. THURSDAY, NOVEMBER 8—GENEVA AND PARIS

(1) *Breakfast with Ambassadors/Chief Negotiators in Key Uruguay Round Countries.*—The Senators met with the Ambassadors to the GATT from five countries: Uruguay, Australia, Canada, Hong Kong, and Mexico.

The Ambassador from Uruguay began the meeting by providing a short overview of the GATT and Uruguay Round, noting the GATT's evolution since its establishment in 1947. (He had participated in the development of the Havana Charter). He then turned to an overview of the concerns of the Cairns Group countries on the Uruguay Round agriculture negotiations. He stressed to the Senators that a tough U.S. position on agriculture was essential if the EC was to be persuaded to improve its proposal.

The other Ambassadors spoke in turn about their countries' perspectives on the Uruguay Round negotiations. The Australian Ambassador discussed his country's economic problems, especially in agriculture, and the need for a joint Cairns Group-U.S. effort to press the EC. The Canadian Ambassador also focused on the agriculture negotiations and the difficult process that lay ahead. The Hong Kong Ambassador noted that other Uruguay Round issues were critical to Hong Kong, in particular greater access for its textile exports and reforms of antidumping laws, which in his view had been used against legitimate practices of Hong Kong exporters. Finally, the Mexican Ambassador outlined the series of economic reforms undertaken by the Salinas Government and the need for progress in the Uruguay Round to ensure that Mexico could increase both its agricultural and manufactured exports.

Senator Bentsen thanked the Ambassadors for their remarks and praised the efforts of the Cairns Group. He also singled out Mexico for praise for its extensive economic reforms, which he noted could be a model for other developing countries. The Senators emphasized the tough U.S. stance in the agriculture negotiations, indicating that they shared the Ambassadors' views that the EC would have to improve its offer substantially if the negotiations were to succeed. The Senators also reviewed the legislative process in the United States and the likelihood that, unless the Uruguay Round was completed at Brussels, an extension of the "fast track" authority would be needed. They said that this extension would be very difficult to achieve, unless the EC moved from its unsatisfactory position in the agriculture negotiations.

(2) *Meeting with Arthur Dunkel, Director General of the General Agreement on Tariffs and Trade (GATT).*—Senator Bentsen began

the meeting by providing Director General Dunkel with a sense of the congressional viewpoint on the Uruguay Round. He indicated that 37 Senators had recently introduced a resolution in the Senate providing that the Uruguay Round be denied fast track treatment when it comes to the Congress for approval. He reiterated that many Senators were concerned that the agricultural proposals by the EC were inadequate.

Senator Danforth indicated that the EC agriculture proposal was unacceptable and reiterated his view that the rebalancing concept contained in the EC agriculture proposal was unacceptable to the United States. Senator Daschle indicated that the EC agriculture proposal moved in exactly the wrong direction. He indicated that there was a need to see greater urgency, both in the agricultural negotiations and in the negotiations overall. Senator Bryan indicated that he believed that the EC did not feel the appropriate sense of urgency about making progress in the Round.

Director General Dunkel indicated that the presence of the congressional delegation was very useful for him. He expressed congratulations that the United States had settled its budget negotiations and he indicated that the \$13 billion cut in agricultural programs made by the United States demonstrated how the EC might make similar reductions. He also indicated support for the view that the United States should be inflexible in terms of the extension of fast track authority for the Uruguay Round negotiations.

Director General Dunkel then offered his assessment of where the negotiations stood. He indicated that several countries had made improved offers in several weeks which indicated that the talks might be moving forward. He also indicated that the services negotiations were extremely ambitious and that some areas might need to be covered after the initial round of negotiations were concluded.

Senator Bentsen then discussed the cost of a failed Uruguay Round. He indicated that there would be an increase in protectionist trading blocs and that protectionism as a whole might rise. He indicated that the United States should not seek partial solutions, but rather should seek to achieve a comprehensive agreement. He argued this was necessary, even though virtually all members of Congress would feel that some parts of the agreement were not attractive. Director General Dunkel also indicated that one of the worst aspects of failure would be that countries currently favoring open trade (e.g., Brazil, Argentina, Mexico, Hungary) need a reinvigorated GATT to help promote their reforms.

Senator Bentsen concluded the meeting by reiterating again his strong view that the current agriculture offer by the EC was simply unacceptable.

(3) *Meeting with Louis Mermaz, French Minister of Agriculture and Forests.*—Senator Bentsen began the meeting by explaining the role of the Finance Committee in international trade issues generally and in the Uruguay Round specifically. He indicated that the negotiations had been continuing for 4 years, but that it looked like all countries would wait until the last minute to make serious offers. He also reminded Minister Mermaz that 37 Senators had introduced a resolution to deny a Uruguay Round agreement fast track treatment when it came back to the Congress for approval.

He noted that if these Senators succeeded, the agreement would fail. Regarding agriculture, Senator Bentsen noted that the United States had already made \$13 billion worth of cuts in its farm programs and that this demonstrated the U.S. commitment to reducing farm subsidies. He expressed dismay that the recently proposed EC proposal appeared to be a step back from the original MacSharry proposal, which itself had been unacceptable to the United States. He expressed the fear that if the Uruguay Round negotiations failed he could foresee the development of trading blocs which would lead to increased protectionism.

Minister Mermaz emphasized the importance of trade between the United States and the EC. He indicated that each country must find ways to establish a healthy partnership. He indicated the EC and the French in particular have a strong connection to agricultural interests and disagreed with the U.S. approach in the Uruguay Round. However, he noted that the main goal of the EC was to preserve its internal markets and its export markets. He indicated that it is France's goal to ensure competitive conditions and fair conditions worldwide, but also to ensure that each country is not destroying each other's markets. He expressed the view that the United States must permit the EC to allow it to retain its domestic and foreign markets in the context of the Uruguay Round agreement.

Senator Danforth responded that he had visited the EC 2 years ago and had been assured at that time the EC 1992 process would not result in a Fortress Europe. He stated that he now believed his worst fears were coming true and that the recent EC proposal on agriculture confirms these fears. Senator Daschle objected to the assertion, made by Minister Mermaz, that the United States subsidizes its farmers as much as the EC. He made the point that the United States had already dramatically reduced its subsidies in recent years. He also indicated that if the Uruguay Round failed, the United States would be in a far stronger position to enhance its farm trade programs and to compete more forcefully with the EC. Senator Bryan indicated his view that the United States and EC were at a crossroads. He expressed the view that it was critical that both sides devise a framework that would permit them to make significant progress in agriculture and other areas.

Minister Mermaz stated that he appreciated the frankness of the delegation. He expressed the view that the United States should stress agriculture less and stress other negotiating areas more. He also expressed appreciation for the U.S. role in the Persian Gulf. He expressed President Mitterand's complete support for the global embargo. In addition, he stated that he hoped the creativity and the initiative demonstrated in the Gulf crisis would be tapped to help address the Uruguay Round and other economic issues confronting both countries.

Senator Bentsen ended the meeting by recognizing that each country must give up something in the agriculture negotiations in the Uruguay Round. He indicated that it is estimated that the EC will spend approximately \$12 billion in 1990 on export subsidies, while the United States will spend only \$280 million. He also expressed the view that continued subsidy wars between the United States and EC were analogous to the United States and EC throw-

ing U.S. silver dollars and French francs into the Atlantic Ocean—a senseless competition that simply turns on which country has more money to spend in this area.

Senator Bentsen closed by reminding Minister Mermaz that he had been a pilot in France during World War II. He expressed his affection for France. However, he noted that no country is strong enough today to go it alone as a trading bloc without decreasing the global standard of living. He therefore expressed his strong view that the United States and France could work out their differences and reach a successful Uruguay Round agreement.

(4) *Meeting with Pierre Beregovoy, French Minister of Finance.*— Minister Beregovoy began the meeting by suggesting that it was important to discuss the Uruguay Round as a whole. In other words, he suggested that it was useful to discuss more than just agriculture. He indicated that the U.S. emphasis on agriculture has made it difficult to discuss other issues and to make progress in the Round as a whole.

Senator Bentsen responded that progress in agriculture was critical in order to get a Uruguay Round agreement through the Senate. He indicated that 37 Senators had already introduced a resolution that would deny the Uruguay Round agreement fast track treatment and that many of those Senators were from agriculture states. He briefly described the fast track process for Minister Beregovoy, then reminded him that the United States had recently made \$13 billion in cuts in its farm programs, which was a greater level of reduction than was envisioned in the original MacSharry proposal.

Minister Beregovoy responded that Europe is currently open to imports. He indicated that one of the few restrictions remaining refers to automobiles from Japan, but he expressed confidence that they would solve this in coming years. Regarding the issue of Airbus subsidies, which previously had been raised by Senator Danforth, he indicated that Airbus has a serious problem vis-a-vis Boeing because of recent currency fluctuations which put Airbus at a 20 percent handicap. As for agriculture, he indicated that both the United States and EC must be responsive to its farm vote. He indicated that all parties in France oppose the formation of the development of the recent EC proposal on agriculture, and that the French Government was being urged strongly by its farmers to make no concessions. He expressed a willingness to understand the U.S. position and he expressed the hope that the United States could understand the EC position.

Senator Daschle expressed a strong desire to have an open market in agriculture. He indicated that since 1986 the United States had reduced its farm program levels by 60 percent. He indicated the United States would make additional reductions of 40 percent between 1990 and 1995. He indicated that the only way other U.S. farmers could survive is if they gain in farm exports what they lose in farm subsidies. He indicated that the United States will use progress in the Uruguay Round as an indication of the EC's true intent regarding EC 1992.

Senator Bryan indicated that it would be in the best interest of the United States and all other countries to have a successful Uruguay Round. However, he indicated that the negotiations were at a

critical juncture and that other areas, in addition to agriculture were also critical (e.g., services, intellectual property rights). If the Uruguay Round were to fail, he expressed the fear that there would be a vulcanization of trading blocs and increased protectionism.

Minister Beregovoy indicated that he was struck by the successive statements that the Senators had made, which seemed to him sincere. He expressed the view that France shared their overall goals. Although he continued to emphasize that agriculture was the most sensitive area for the EC, he also expressed the hope that an agreement could be reached as a result of compromise involving agriculture and other areas.

Summarizing his position, Minister Beregovoy indicated that he sought to (1) avoid failure in the negotiations, (2) do everything possible to make the negotiations succeed, and (3) do what is possible to make the negotiations succeed.

D. FRIDAY, NOVEMBER 9—PARIS

(1) *Meeting with Elizabeth Guigou, French Minister for European Affairs.*—Senator Bentsen began the meeting by indicating that the United States was concerned about a variety of issues, but also that agriculture had reached a predominant position in the negotiations. He indicated that 37 Senators had introduced a resolution to deny the Uruguay Round agreement fast track consideration by the Congress. He indicated that unless serious movement on agriculture was made in the Uruguay Round, it would be tough to achieve approval for the agreement. He then indicated the United States had just finished budget negotiations in which it had made the tough decision to cut U.S. agricultural supports by \$13 billion. He therefore expressed hope that the EC would be able to make similar decisions in the context of the Uruguay Round agreement.

Minister Guigou expressed the view, earlier expressed by Minister Beregovoy, that all subjects should be given equal consideration in the negotiations and that agriculture should not be given excessive emphasis. In response to a suggestion by Senator Bentsen that Europe had begun to look inward, she expressed the view that the EC 1992 process would open up European countries to trade within Europe, but also to trade with countries outside Europe.

Senator Danforth said there were many indications that the EC 1992 process is making European countries more interested in doing business among themselves rather than with other countries. He cited the examples of Airbus, agricultural subsidies, and cultural trade protections. He expressed the view that the course seems to be in the non-trade liberalizing direction. Minister Guigou expressed the view that the EC 1992 process would be a benefit to all countries, not just to EC nations.

Minister Guigou then expressed the view that the EC had made great efforts to reduce its agricultural budget deficit and that it would continue to improve discipline on agricultural subsidies. She mentioned that the EC had established a process for land to be set aside (as a condition for receiving support payments) and asserted that the United States is dismantling those mechanisms in the United States. She also indicated that the EC is far more depend-

ent on its farm population, since the EC has ten million farmers whereas the United States has only three million farmers, despite a larger land mass. She expressed the view that the choice the EC has made with regard to its farmers is consistent with its culture and the needs of the continent.

Senator Daschle began his comments by expressing pleasure that France has provided support for the United States in the Persian Gulf. He took exception to the view expressed by Minister Guigou that the United States has been putting more land into production. He emphasized that in recent years the United States has put land aside equal to the size of the state of Illinois. He stated that it was appropriate for both countries to take into consideration the need for internal supports. However, he indicated that it was important for both countries to stop practices that directly affect trade. He stated it was critical that both countries avoid a "farms race."

Senator Bryan indicated that the negotiations come at a critical juncture in U.S.-EC history. He said that it is not in the best interest of either country to let this opportunity escape and that it was very important that the United States to see some substantive movement from the EC on agriculture. He also expressed the view that the recent EC proposal on agriculture was a setback for the negotiations.

Minister Guigou expressed her view that France would like the negotiations to proceed. She stated that additional bilateral work is needed in the area of agriculture and that, in the French view, the U.S. agricultural proposal is still unclear. She asserted that the United States had not offered the specifics of its proposals beyond the general offer to reduce internal supports and market barriers by 75 percent and to reduce export subsidies by 90 percent. She asserted that the discussion should go forward on a precise basis and that more detailed work was required between now and the Brussels ministerial in December 1990. She concluded by thanking the delegation for requesting the meeting. She stated that their frankness was appreciated and that countries needed to work together to reach a full agreement.

(2) *Meeting with Jean-Louis Bianco, Secretary-General and Chief Advisor to President Mitterand.*—Senator Bentsen began the meeting by indicating his appreciation for the manner in which the United States and France had worked together on the Persian Gulf crisis. Regarding the Uruguay Round, he stated that the EC had tabled a proposal which could not be sold in the U.S. Senate. He related that the United States had just gone through a budget process in which its farm programs were cut by \$13 billion over 5 years, and that those cuts could not be sustained without substantial commitments by France in the context of the Uruguay Round. He asked Secretary-General Bianco to provide his thoughts on the politics of the agricultural issue within France.

Secretary-General Bianco expressed the view that it was in the mutual interest of both countries to avoid a trade war. However, he indicated that the agriculture negotiations have spurred violence and demonstrations by the French public and that this must be taken into consideration in considering the EC's negotiating position.

With regard to the future of agriculture, he indicated that the demographics were quite important. He indicated that in coming years the number of farms within the EC would drop substantially, reducing the need for agricultural subsidies. He also indicated that the size of farms within the EC are approximately one-tenth the size of the United States, which reduces substantially the possibility for extensive (and efficient) production.

Senator Danforth indicated that there is no other country in the world with which the United States has had a longer, friendlier relationship than France. He also indicated the cohesiveness of the free world was extremely important, particularly during the Persian Gulf crisis. Therefore, he indicated the collapse of the Uruguay Round would be wrong. However, he indicated that it would be impossible to take back to the Senate an agreement that would not be in the best interests of the United States.

Senator Bryan indicated the hope that there was a possibility of reaching an agreement that promoted trade in manufacturing services and government procurement as well as other areas. He expressed the hope that if such an agreement could be reached, a promising century would lie ahead for both countries. Therefore, it would be a shame if the talks were held up because of the agricultural issue. He recognized the political difficulties of securing an agreement in agriculture, but expressed hope that the problems could be overcome.

Senator Bentsen expressed support for the EC 1992 process, but emphasized that he favored a true opening of trade to the outside world, not just within the EC itself. He expressed the view that the Uruguay Round must be expansive so as to include countries, including many less developed countries which have heretofore not participated fully in the GATT. He cited the example of Mexico—which has privatized its telephone companies, reduced its maximum tariff to 20 percent, and become current on its IMF payments—as an example of a developing country that has adopted free market policies. Regarding textiles and apparel, he emphasized that there is a greater need for a balance of trade among the developed countries. He indicated that in the 1980s the rate of growth in textile imports from developing countries by the United States was twice the EC rate of growth.

Secretary-General Bianco indicated that the developed countries needed to show real compromise with regard to their relationship with the developing countries. He indicated that some can permit an opening of trade, while others cannot. He also indicated that there was a substantial problem of debt with regard to many of these countries. Although he allowed that this is not an issue that is to be decided within the GATT, it is nevertheless an issue that is important for all developed countries to consider.

