

# U.S., European Union toe-to-toe over trade issues Page 1

By Shelley Emling

## Worst Trade Rows in Recent History

**London** – Among the runners in today’s New York Marathon will be Pascal Lamy, the European Union’s trade commissioner.

The race’s demands on his endurance and competitive spirit are nothing compared to the task Lamy’s facing Monday in Washington – a fresh attempt to ease trans-Atlantic trade tensions that many cite as the worst in recent history.

In a tit-for-tat fracas, the 15-nation European Union and the United States have been threatening one another with billions of dollars in sanctions related to all sorts of trade rows.

The two sides have been haggling over steel tariffs, agriculture subsidies and genetically modified foods, among other issues.

And nothing less than the future of the World Trade Organization could be at stake. If the world’s largest commercial partners can’t agree, trade experts

say, then what hope is there for a worldwide trade accord that could help resuscitate global economic growth?

But despite the flare-up in tensions, Lamy remains optimistic, viewing the overall trade relationship as a pretty chummy one.

“You have to remember that 98 percent of the trade that occurs between us is absolutely fine,” he said in an interview. “The frictions we have are normal and involve only 1 or 2 percent of the trade that occurs.”

## Things don’t look so bad

“If you look from the moon, things don’t look so bad,” Lamy said.

Indeed, trade between the two sides – the largest investors in each other’s markets – now totals more than \$ 500 billion annually. U.S.-owned affiliates in Europe employ 6 million European workers, and more than 4 million Americans get paychecks from European companies. And there are many areas in which the two appear keen to cooperate.

Negotiations for an “open skies” agreement kicked off in early October, a project that could increase trans-Atlantic air travel by up to 11 million passengers a year.

Benefits for passengers – in the form of lower fares and more frequent flights – could top \$ 5.2 billion, according to a recent statement from U.S. Deputy Assistant Secretary of Commerce Eric Stewart.

Trade disputes grab the headlines, said Daniel Hamilton, director of the Center for Transatlantic Relations at Johns Hopkins University in Washington, but the investment numbers tell a different story.

He said that during the first half of this year, a time when the United States was at odds with Europe over Iraq, U.S. corporations pumped \$ 40 billion into Europe, a 15 percent increase from 2002.

Anti-American sentiment didn’t stop Europeans from investing, either. European companies funneled \$ 36 billion into the United States during the first half of this year.

“Frictions come about not because we’re drifting apart but because we’re so entwined,” Hamilton said. “And problems arise when two economies become so entwined but have different regulatory systems.”

Coming to head Both Hamilton and Lamy acknowledge that some major trade problems are about to come to a head – ones that could spell trouble for U.S. businesses.

## Major Trade Problems

Most important among these, says Lamy, is the issue of U.S. tax breaks for exporters, worth about \$ 5 billion a year. The WTO ruled in 2000 that the subsidy breaks trade rules.

Congress has only until the end of this year to repeal the tax breaks before the EU, which believes they give the United States an unfair advantage in the global marketplace, imposes \$ 4 billion in trade sanctions.

“The president has said the United States would comply. I will wait nicely until the end of the year. But if they don’t get there – if the legislation isn’t repealed – then we have a big problem,” Lamy said.

“We know it’s complex to pass tax legislation in the United States – but we want this thing to be dealt with by the end of this year,” he said.

Indeed, many think Congress won’t be able to complete work on the repeal until next year.

The crafting of new tax breaks to replace the ones ruled illegal has set off a lobbying storm as industries seek a slice of the pie.

The House bill is also much more expensive than the Senate version, and it’s uncertain whether all the conflicts



*European Union Trade Commissioner Pascal Lamy says the fracas involves only a small amount of trade.*

can be worked out before Congress recesses for the year, probably by Thanksgiving.

Many in Washington fear a full-fledged trade war could break out if the matter isn't resolved. U.S. Trade Representative Robert Zoellick recently called the threatened EU sanctions the trade version of a nuclear bomb.

This week Lamy plans to meet with Zoellick and members of Congress to discuss the dispute.

Another issue is tariffs imposed by President Bush in March 2002 on certain foreign steel products.

The administration is hesitant to remove the tariffs – initially designed to shield the domestic industry from foreign competition as it underwent a reorganization – because it could hurt Bush's popularity in Midwestern states that are key to winning the 2004 election.

Many believe a ruling due Nov. 10 from a WTO appellate body will uphold an earlier finding that the tariffs violate world trade rules.

If that happens – and Bush still doesn't remove the tariffs – the EU may retaliate with another \$ 2.2 billion in sanctions on U.S. exports.

"They have to be removed, and if not, we will be entitled to put pressure on the United States, and this pressure will be the tariffs," Lamy said.

Dan Ikenson, a trade policy analyst at the Cato Institute in Washington, said that eliminating steel tariffs should be a no-brainer. "If Europe retaliates, a lot of U.S. exporters are going to be upset because they are going to see tariffs on everything from textiles from North Carolina to oranges from Florida," he said.

But while they are important, neither steel nor the corporate tax breaks have caught the public's fancy – particularly in Europe – as the debate over genetically modified food has.

### Strong Debate in Europe

Public opinion in Europe remains largely hostile to genetically modified foods, a hostility fueled by a recent British study showing dramatic effects on wildlife from two of three GM crops tested.

The United States has long wanted Europe to open up to genetically modified products, and even the EU has said it may soon lift a moratorium on bio-engineered foods. But it will only do so if certain criteria are met – set to be announced by December – that could include the costly labeling of genetically modified products.

For that reason, the United States and Canada continue to pursue a WTO suit against the EU over its moratorium.

Related to genetically modified foods is the issue of

beef hormones, which also touches nerves among a wary European public.

The WTO ruled in 1998 that the EU had no specific scientific evidence to justify a ban in place since 1989 on beef from cattle receiving growth hormones. It allowed the United States to impose about \$ 125 million worth of tariffs each year on EU products.

But EU officials said in mid-October they have new studies to prove the dangers of hormones, and the United States should lift its penalties. They say they'll take their evidence to the WTO.

"The food issues are going to be very difficult to resolve because they've become domestic political issues in Europe," said Frances Burwell, director of the Program on Transatlantic Relations at the Atlantic Council of the United States in Washington. "The GM issue could become very nasty unless Europe lifts its moratorium."

### Outcome of WTO Meeting

What's perhaps most troubling, trade experts say, is that these EU-U.S. trade disputes are flaring up just weeks after global trade liberalization talks broke down at a WTO meeting in Cancun, Mexico, last September.

The breakdown destroyed any hopes that a conclusion could be reached by December 2004, as originally planned.

Some have suggested that the Cancun failure may cause Europe and the United States to shy away from multilateral accords.

"No, that's not really true," Lamy said. "We've always combined multilateral and bilateral negotiations in the past and will continue to do so."

"But given what happened in Cancun, we'll all have to recheck what our negotiating positions are before talks are restarted," he said. "Any restart will not lead anywhere if people remain on the same position. We are doing this and we'll be ready for more talks."

In Hamilton's view, the EU-U.S. trade disputes could hamper the effectiveness of the WTO and the global trade talks going forward.

He asks: "If the economies that are most like each other in the world cannot agree on a whole range of issues, what prospects are there for other economies to agree on anything?"

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