

Report for Congress

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Trade Conflict and the U. S.-European Union Economic Relationship

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Summary

The United States and the European Union (EU) share a huge, dynamic, and mutually beneficial economic partnership. Trade conflicts, disputes, and rivalry, however, are an important consequence of growing commercial interaction and economic integration. While trade conflict in the past has tended to ebb and flow, some observers believe that the threat of a trade war in 2002 is more serious than before. A dispute over steel trade is the proximate cause of rising trade tensions, but other high profile disputes involving tax breaks for U.S. exporters and the treatment of genetically-modified (GE) products lurk in the background. Congress, through legislative reaction to both EU practices and Bush Administration policies, has been in the middle of these disputes.

Resolution of U.S.-EU trade disputes has become increasingly difficult in recent years. An analysis of the causes, as well as the factors affecting the supply of and demand for protection, help explain why some disputes may be more difficult to resolve than others. Some disputes stem from demands from producer interests for support or protection. Trade conflicts involving agriculture, aerospace, and steel fit prominently into this grouping. These conflicts tend to be prompted by traditional trade barriers such as subsidies or industrial policy instruments, where the economic dimensions of the conflict predominate. Other conflicts arise when the U.S. or the EU initiate actions or measures to protect or promote their political and economic interests, often in the absence of significant private sector pressures. The underlying cause of these disputes over such issues as sanctions, unilateral trade actions, and preferential trade agreements are different foreign policy goals and priorities of Brussels and Washington.

Still other conflicts stem from an array of domestic policies that reflect differing social, cultural, and environmental values and objectives. Conflicts over hormone-treated beef, GE products, protection of the audio-visual sector, and aircraft hushkits, for example, are rooted in different U.S.-EU social preferences, as well as regulatory approaches.

These three categories of trade conflicts - traditional, foreign policy, and domestic - possess varied potential for future trade conflict. This is due mostly to the fact that bilateral and multilateral agreements governing the settlement of disputes affect each category of disputes differently. By providing a fairly detailed map of permissible actions and obligations, trade agreements can dampen the inclination of governments to supply protection and private sector parties to demand protection.

U.S.-EU bilateral trade conflicts do not appear to be as ominous and threatening as the media often portray, but they are not ephemeral distractions either. Rather they appear to have real, albeit limited, economic and political consequences for the bilateral relationship. From an economic perspective, the disputes may also be weakening efforts of the two partners to provide strong leadership to the global trading system.

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Trade Conflict and the U. S.-European Union Economic Relationship

Introduction

The bilateral economic relationship between the United States and European Union (EU) is shaped by two outstanding trends. On the one hand, the two transatlantic economies share a high degree of commercial interaction, most notably a huge trade and investment relationship and a growing number of corporate mergers. Cooperation between the two partners has been critical to the promotion of world trade. On the other hand, the bilateral economic relationship is subject to limited, but increasingly contentious, trade conflicts that potentially could have adverse political and economic repercussions.¹ These include a weakening of shared interests and bonds as well as an undermining of the credibility of the World Trade Organization (WTO).

The dimensions of the mutually beneficial side of the economic relationship are well known. The United States and EU are parties to the largest two-way trade and investment relationship in the world. Annual two-way flows of goods, services, and foreign direct investment now exceed \$1 trillion. This sum means that close to \$3 billion is spent every day on transatlantic purchases of goods, services, and direct investments.²

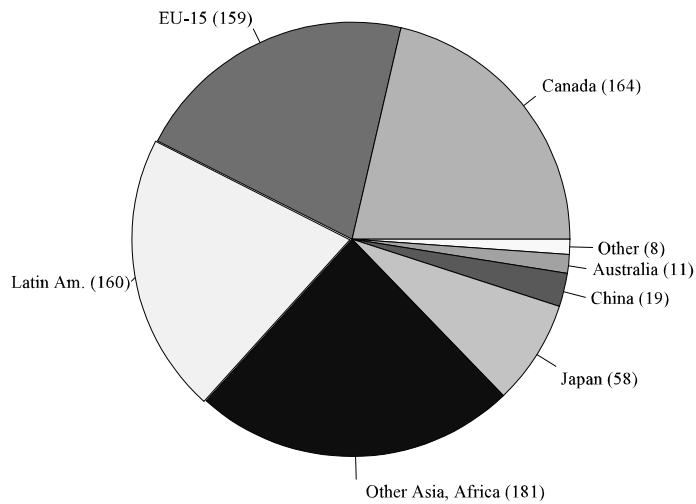
The European Union is the second largest trading partner of the United States in merchandise or goods. In 2001, the EU accounted for 21.8% (or \$159 billion) of U.S. exports and 19.2% (or \$220 billion) of U.S. imports. If trade in services are added to trade in goods, the EU is the largest U.S. trading partner. In 2000, the EU purchased \$90 billion in U.S. commercial services (about one-third of the U.S. total).

¹For the purposes of this report, the term “conflict” is used broadly to include U.S.-EU disagreements on issues that may not have been raised in formal World Trade Organization (WTO) proceedings. The term “dispute” is used more narrowly for issues that have been subject to WTO consultations, including those requests which have led to panel and appellate review proceedings. Unless referring to a particular dispute, the two terms, however, are often used interchangeably.

²Data sources for this section, unless otherwise noted, are drawn from the following sources: Cooper, William H., *EU-U.S. Economic Ties: Framework, Scope, and Magnitude*, CRS Report RL30608; the European Union’s profile of facts and figures on the EU-U.S. economic relationship found on-line at [<http://www.eurunion.org/profile/facts>]; and various editions of the Survey of Current Business, Department of Commerce.

Figure 1. U.S. Exports of Goods by Region, 2000

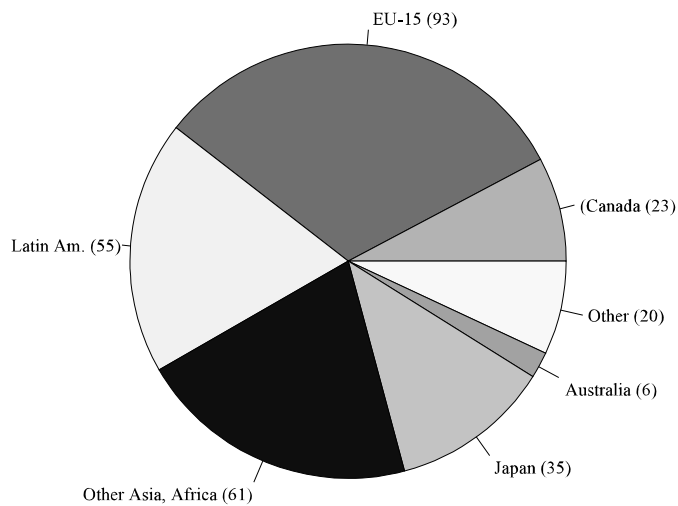
(Billions of U.S. Dollars)



Source: U.S. Department of Commerce.

Figure 2. U.S. Exports of Services by Region, 2000

(Billions of U.S. Dollars)



Source: U.S. Department of Commerce.

The United States since 1993 has been importing more goods from the EU than it has been exporting. In 2001, the resulting U.S. trade deficit with the EU totaled \$60.9 billion or 15% of the U.S. merchandise trade deficit with the world. This trade deficit is partially offset by U.S. surpluses in services trade which have averaged around \$17-\$18 billion dollars over the past four years.

Based on a market of some 379 million consumers and a 2000 gross domestic product of \$7.8 trillion (compared to a U.S. GDP of \$10.0 trillion), the fifteen members of the EU combine to form an increasingly integrated market that rivals the United States in size.³ With the introduction on January 1, 1999 of a common currency, the Euro, for twelve members of the EU, the EU today equals the United States in many measures of economic strength. With a planned enlargement to twenty-five members, the EU may exceed the United States on a number of economic indicators in the future.

Given the EU's huge market, future U.S. export opportunities are considerable. Based on a moderate 1.5% growth rate in 2001, the EU economy expanded by over \$120 billion – an amount equivalent to an economy the size of Greece, Finland, or Venezuela. As Europe increasingly adopts information technology and other new economy reforms, a higher rate of economic growth and correspondingly enlarged U.S. export opportunities can be anticipated.⁴

The fact that each side has a major ownership stake in each other's market may be the most remarkable aspect of the commercial relationship. At the end of 2000, the total stock of two-way direct investment reached \$1.37 trillion, making U.S. and European companies the largest investors in each other's market. U.S. direct investments in Europe totaled \$573.4 billion, accounting for 56% of all foreign direct investment in the EU. European direct investments in the U.S. totaled \$802.7 billion, accounting for 60% of all foreign direct investment in the United States.⁵

An estimated three and one-half million U.S. workers today (1 out of 12 factory jobs) are employed by European companies and an equal number of Europeans work for American companies that are producing in Europe. Trade taking place within the same company (imports by U.S. affiliates from their EU parent firms and exports by U.S. companies to their EU affiliates) accounts for around one-third of U.S. total trade with the EU.⁶

These employment and trade linkages, supported in recent years by hundreds of corporate mergers valued at several hundred billions of dollars, help create strong

³The fifteen members are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

⁴Hufbauer, Gary C. and Hyun Koo Cho, "How Fast Will The New Economy Reach Europe," *Institute for International Economics*, September 14, 2000.

⁵European companies are also the number one foreign investor in 41 U.S. states and the second largest in the other nine.

⁶Eizenstat, Stuart. "The Future of Our Economic Partnership with Europe," Testimony Before the House International Relations Committee, Washington, D.C., June 15, 1999.

and politically active interest groups that lobby on both sides of the Atlantic in favor of maintaining friendly bilateral ties, reducing regulations, and in opposing protectionist proposals.⁷

The United States and the European Union, acting in concert, are the superpowers of the world trading system. Together they accounted for 37.6% of world merchandise trade and 56.9% of the world's production of goods and services in 2000.

Table 1. World Trade 2000
(excluding intra-EU trade)
(Billions of U.S. Dollars)

	Imports and Exports	% of Total
United States	2,040	19.9
EU-15	1,814	17.7
U.S. and EU-15	3,854	37.6
World	10,249	100

Source: Eurostat.

Table 2. World Gross Domestic Product, 2000
(Billions of Dollars)

Region/Country	GDP	% of World Total
United States	9,882	31.5
EU-15	7,946	25.3
Eu-15 plus United States	17,828	56.9
Japan	4,677	14.9
Latin America & Caribbean	1,995	6.3
East Asia and Pacific	2,059	6.6
China + Hong Kong	1,243	4.0
Canada	689	2.1
Middle East and Africa	591	1.8
South Asia	620	1.9
Sub-Saharan Africa	322	1.0
World	31,336	100

Source: World Bank, World Development Report - 2002.

⁷Merger and acquisition activity over the past several years has been dominated by European takeovers of U.S. companies.

Cooperation and joint leadership between the two partners have historically been the key to all previous efforts to liberalize world trade on a multilateral basis, including the creation of the General Agreement on Tariffs and Trade (GATT) in 1948 and the World Trade Organization (WTO) in 1995. Over the past several years, the two have worked closely to obtain three new WTO agreements that have liberalized market access for companies in the fields of financial services and basic telecommunications, and that have phased out tariffs in information technology products. The two partners have also cooperated closely in negotiating the terms of China's entry into the WTO, as well as the launch in November 2001 of the Doha Round of Multilateral Trade Negotiations.

Trade tensions, disputes, and rivalry coexist alongside and, in part, result from these cooperative and generally positive currents. Bilateral trade disputes have been an important part of the relationship during the Cold War as well as after. They are nothing new nor unexpected given the huge volume of commercial interactions. Historically, with the possible exception of agriculture, the disputes have been managed without excessive political rancor, perhaps due to the balanced nature of the trade and investment relationship. Statesmen and many academics often emphasize that the U.S. and EU always have more in common than in dispute, and like to point out that trade disputes usually affect a tiny fraction (often estimated at 1 percent) of the trade in goods and services.

All In the Family?

The notion that trade disputes with the European Union generally have engendered less political rancor and bitterness than U.S. trade disputes with a number of developing countries and Japan is a popular one. Whether the proposition is valid or not, the most common explanation put forth relates to the view that transatlantic trade relations are underpinned by comparable levels of socioeconomic development and by more balanced economic interactions.

EU member states, unlike many developing countries, have wage rates and labor and environmental standards that equal or exceed U.S. standards. From one perspective, this fact shields Europe from charges of "cutthroat" competition and "unfair" trade that are often directed at low-wage developing countries possessing relatively low labor and environmental standards.

Several indicators support the argument that trade between the United States and EU takes place on a "level playing field." As measured by the value of imports and exports as a percentage of GDP, for example, a case can be made that both economies are similarly open to trade. In 2000, the trade openness ratios of both trading partners ranged between 12 and 13 percent.

The composition of trade and pattern of trade deficits are also used to illustrate that U.S.-EU trade ties are balanced and non-adversarial. Unlike U.S. trade with Japan, U.S.-EU trade is characterized by a high level of intra-industry trade, where both sides import and export similar products such as cars, computers, aircraft, and integrated circuits. Nor have U.S. merchandise trade deficits with the EU given rise to the same kind of concern that U.S. trade deficits with Japan or China have sparked. (In the 1990s, the United States ran trade surpluses with the EU in 1999, 1991, and 1992 totaling \$32 billion and from 1993-2001 experienced trade deficits totaling \$265 billion). Macroeconomic factors, such as differential economic growth rates and the exchange rates, are generally thought to explain most of the fluctuation in the U.S.-EU bilateral deficit, rather than trade barriers or structural aspects of the trade relationship.

At the beginning of the new millennium, however, the mood and political climate in Washington and Brussels may be changing as the two sides have been at loggerheads over dozens of issues, ranging from agriculture and aircraft to wheat gluten and wine. The conflicts, according to one former U.S. trade official, are getting harder to resolve.⁸ The EU Commissioner for Trade, Pascal Lamy, judges that “the problems seem to get worse, not better.”⁹ Moreover, some of the efforts at dispute resolution have led to escalation and tit-for-tat retaliation. Instead of compromising in an effort to find solutions, policymakers on both sides sometimes appear more interested in getting even.

Congress has been in the middle of many of the bilateral trade disputes. By both introducing and passing legislation, Congress has supported the efforts of U.S. agricultural and industrial interests to gain better access to EU markets. Congress has pressured the executive branch to take a harder line against the EU in resolving a number of disputes, but has also cooperated with the administration in crafting compromise solutions.

Combined with a growing value of trade now being disputed, the political and economic effects of trade discord between Brussels and Washington are important questions. Why are many disputes so difficult to resolve? What can be done to improve dispute resolution efforts? Are the disputes undermining business confidence or efforts at economic policy coordination? Are the disputes weakening the credibility of the WTO dispute settlement system? Do the political disputes reflect differences between the two partners in terms of basic values and orientations? If so, could the disputes force a fundamental re-evaluation of the importance of the bilateral relationship? In short, what is the significance of trade conflict to the bilateral relationship?

This report considers these overriding questions in four parts. The first part describes the ebb and flow of trade tensions between the United States and European Union over the past several years. The second part categorizes and evaluates the trade conflicts according to their underlying causes and characteristics. In light of the causes and dimensions of the disputes, the third section examines the potential for future trade conflict. A final section assesses the role that trade disputes may be playing in the U.S.- EU economic relationship.

Ebb and Flow of Trade Tensions

U.S.- EU trade tensions have ebbed and flowed in recent years. During 1999 and 2000, the two sides bickered over the EU’s discriminatory policies affecting imports of bananas and beef treated with hormones. U.S. retaliation against EU trade and

⁸Aaron, David L. “Communicating--and Failing To--Across the Atlantic,” *European Affairs*, Spring 2000, pp. 24-28.

⁹Lamy, Pascal. “New Round or No Round: Prospects for Resolving Transatlantic Trade Disputes and Liberalizing Trade,” Speech Delivered at the *European Institute*, Washington, D.C., November 2, 2000.

credible EU threats of counter retaliation brought the two trading partners to the brink of a trade war.

Both the beef and banana disputes had a long history. The beef case has its genesis in an import ban issued by the EU in 1985, and the banana case stemmed from an EU effort to devise a common import regime for bananas in 1993. In both cases, after many years of litigation, the WTO found in favor of the U.S. petitions alleging that EU policies toward these products violated world trade rules. In 1999, EU offers of compensation for lost exports in lieu of lifting its beef hormone ban or changing its banana regime were rejected by the United States and prohibitive (100%) tariffs were imposed on \$300 million of mainly luxury products such as Danish ham, truffles, Roquefort cheese, and Italian handbags. Exports from Britain, Spain, and France were mostly targeted in the banana case and exports from France, Germany, Italy, and Denmark in the beef hormone case because these countries were deemed most responsible and supportive of the discriminatory policies of each case.¹⁰

Tensions between the two sides escalated in response to related actions that each side took. The first step was a decision by the EU to challenge a provision of the U.S. tax code known as the Foreign Sales Corporation (FSC). This provision provides around \$4.0 billion in income tax benefits for big U.S. companies such as Microsoft and General Electric by allowing them to funnel overseas profits through offshore tax havens. The EU argued that the FSC constituted an illegal and trade-distorting export subsidy.¹¹

While the FSC was enacted in 1984, the EU did not challenge the provision until November 1997. Many on the U.S. side suspect that the challenge had much to do with EU pique over U.S. pressures on bananas and beef. Winning a case that involved a very large amount of trade may also have been seen by some Europeans as providing significant negotiating leverage that could be used to settle other trade disputes as well. The EU argued that its challenge was prompted by an effort to level the playing field, but there is little indication that European companies, with the exception of Airbus, were proponents of the challenge.

The case eventually provided the EU with a huge bargaining chip – authorization from the WTO to impose trade sanctions on a value of exports that could range from \$1 billion - \$4 billion – an amount of retaliation that might not only disrupt trade on a massive scale, but also court a strong U.S. counter-response.¹² (A WTO arbitration panel is scheduled to decide the exact amount by June 17, 2002.

The timing of the FSC dispute coincided with implementation of a new provision in U.S. trade law, known as “carousel retaliation.” Passed by Congress in

¹⁰For full discussion of these disputes, see Hanrahan, Charles E. *The U.S.-European Banana Dispute*, CRS Report RS20130, and Hanrahan, Charles E. *The European Union's Ban on Hormone-Treated Meat*, Report RS20142.

¹¹For discussion of the economic aspects, see Brumbaugh, David L. *The Foreign Sales Corporation (FSC) Tax Benefit for Exporting and the WTO*, CRS Report RS20571.

¹²Alden, Edward. “U.S. Tax Move in Bid To Avert EU Dispute,” *Financial Times*, July 25, 2000.

2000, this provision directed the USTR to rotate items under trade sanctions from product to product and country to country every six months. The congressional intent was to build up political pressure in the EU to change its banana and beef policies by spreading the pain of retaliation among European exporters, who would, in turn, presumably lobby their respective governments to resolve the beef and banana disputes.

With the onset of the Bush Administration in 2001, cooperation began to supercede confrontation. Pascal Lamy, the EU Commissioner for Trade, and Robert Zoellick, the U.S. Trade Representative, reached agreement on the banana dispute and U.S. retaliatory tariffs associated with bananas were lifted in April. The two sides agreed to disagree on the beef hormone dispute, and the EU consented to provide the United States more time to bring its tax law in conformity with its WTO obligations. Moreover, Lamy and Zoellick collaborated to launch a new round of WTO negotiations in November 2001 at the Doha Ministerial.

The lull in trade threats, however, was broken on March 5, 2002 when President Bush announced his decision to impose fairly steep, albeit temporary, tariffs of up to 30% on approximately \$8 billion in steel imports. Canada, Mexico, Israel, and Jordan – countries that have a free trade agreement with the U.S. – were exempted from all tariffs.

The President's decision to rely on a trade remedy and to impose tariffs in a selective fashion raised cries of indignation and protectionism from European leaders, and prompted a quick response. On March 27, 2002, citing a threat of diversion of foreign steel from the U.S. market to Europe, the EU announced provisional tariffs of 15% to 26% on 15 different steel products. More provocatively, the EU took the initial steps under an untested provision of the WTO to impose retaliatory tariffs by June 18, 2002 on U.S. exports with an explicit authorization to act.

If Brussels decides on swift retaliation rather than waiting for the WTO to rule on whether the U.S. steel tariffs are a violation of world trade rules, U.S. trade officials will be under great pressure to retaliate against the retaliation. In this context, U.S.-EU trade tensions are likely to escalate and potentially more explosive disputes involving the U.S. tax benefits and the EU's policy towards new genetically-engineered products could become more difficult to manage.

Sources of Trade Conflict

Changes in government regulations, laws, or practices that protect or promote domestic commercial interests at the expense of foreign interests are at the heart of most trade conflicts. While governments are the sole providers or suppliers of trade protection, there are a range of parties or interest groups that demand or request measures that result in protection for domestic parties. These include producers and workers, as well as consumer and environmental interest groups. Governments may also be the primary demanders or initiators of actions that have trade protectionist effects.

U.S.- EU trade conflicts vary according to the nature of the demand for protection. Many of the major U.S.-EU trade conflicts are classified and discussed below according to the nature of the demand for protective action. While many of the conflicts are spurred by multiple demanders and causes, an attempt is made to classify disputes according to categories that seemingly account for the overriding cause or demand for government action.

As most trade conflicts embody a mixture of economic, political, and social dimensions, there is ample room for disagreement over the dominant cause of any particular dispute. By and large, this report classifies most of the conflicts according to American perspectives. U.S.-European disagreements over the cause and nature of the controversy, of course, provides the basis for many of the conflicts. Whether the conflict is propelled by protectionist or legitimate domestic aims remains a key question in some disputes as well.

It is also useful to point out that the causes of trade conflicts can change over time. The beef hormone case, for example, started out in the eyes of U.S. cattlemen as an attempt to protect inefficient European cattlemen. Over the course of many years, the dispute was transformed into a case primarily concerned about consumer protection. This dynamic further complicates efforts to classify specific conflicts.

Producer Protection: Traditional Trade Conflict

Some conflicts stem primarily from traditional demands from producer or vested interests for protection or state aids. These kinds of disagreements arise when both transatlantic trade partners, in support of vested interests and key industries, craft policies that try to open markets for exports but keep markets protected from imports as much as possible. Trade conflicts involving agriculture, aerospace, and steel fit prominently in this grouping. These are longstanding conflicts, prompted by traditional trade barriers such as subsidies or industrial policy instruments, where the economic dimensions of the conflict predominate.

Agriculture. Agricultural trade disputes historically have been major sticking points in transatlantic relations. Accounting for a declining percentage of output and employment in both the EU and United States, the agricultural sector has produced a disproportionate amount of the trade tension between the two sides. In the past, the majority of what can be called traditional conflicts stemmed primarily from government efforts to shield or protect farmers from the full effects of market forces (non-traditional agricultural disputes involving food safety and the application of biotechnology to food production are discussed below under **Social, and Environmental Protection**).

From the U.S. perspective, the restrictive trade regime set up by the Common Agricultural Policy (CAP) has been the real villain. It has been a longstanding U.S. contention that the CAP is the largest single distortion of global agricultural trade. American farmers and policymakers have complained over the years that U.S. sales and profits are adversely affected by (1) EU restrictions on market access that have protected the European market for European farmers; (2) by EU export subsidies that

have deflated U.S. sales to third markets; and (3) by EU domestic income support programs that have kept non-competitive European farmers in business.¹³

What Is The CAP?

The Common Agricultural Policy of the EU is a domestically-oriented farm policy whose primary objective is supporting farm income. Since its inception in 1962, the CAP has been guided by three principles: (1) a free flow of agricultural commodities within the EU; (2) community preferences whereby EU products have priority in the internal market over imports; and (3) common financing of agricultural programs.

Historically, the high support prices of the CAP have provided strong incentives for investing in EU agriculture. Since 1970, the EU has shifted from being a net importer to one of the world's largest net exporters of wheat, sugar, beef, pork, poultry, and dairy products.

One effect of the CAP has been to raise overall food prices for consumers in the EU. Most U.S. farm programs, in contrast, support farm income without raising food prices to the consumer.

Spending on the CAP accounts for over 50 percent of the EU budget. High budget outlays in the past have caused several budget "crises," leading to policy reforms aimed at curbing agricultural expenditures. The EU goal of expanding its membership to a number of East European countries that have large agricultural sectors is providing additional pressures for reforming the CAP.

Agricultural conflict, particularly over the decline in U.S. exports to the EU and growing EU competition for sales in third markets, was intense in the 1980s. During this period, the majority of U.S. Section 301 cases were directed at the CAP and fierce subsidy wars were waged over third country markets.¹⁴

Tensions, however, have moderated markedly since the completion of the Uruguay Round in the mid-1990s. The 1994 Uruguay Round Agreement on Agriculture defined more clearly what both partners can do in their agricultural and

¹³For a comparison of agricultural programs, see Becker, Geoffrey S. *Agricultural Support Mechanisms in the European Union: A Comparison with the United States*. CRS Report RL30753.

¹⁴Section 301 of the Trade Act of 1974, as amended, requires the USTR to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international agreement or is unjustifiable, unreasonable or discriminatory, and burdens and restricts U.S. commerce. In practice, it has been employed mostly on behalf of American exporters fighting foreign import barriers or subsidized competition in third-country markets.

trade policies, as well as defined more clearly the quantities of agricultural products that countries can export with subsidies. The agreement also contained a nine-year “peace clause” whereby WTO members agreed not to challenge other countries’ subsidies with domestic cases or WTO challenges.¹⁵

From the perspective of the EU, the 2002 U.S. farm bill (“The Farm Security and Rural Investment Act of 2002”) is a matter of considerable concern. The EU claims that the bill aids farmers in a highly production-distorting way and could increase U.S. spending on commodities by 70% over previous levels. As a result, the EU claims that the U.S. has lost any claim to be a credible force for farm policy in the context of the upcoming Doha WTO negotiating round. Whether the U.S. farm bill will serve as a prod for other countries to engage in efforts to further reduce production-distorting support programs or an obstacle remains to be seen.

Aerospace. Claims and counter-claims concerning government support for the aviation industry have been a major source of friction in U.S.-EU relations over the past several decades. The fights have focused primarily on EU member state support for Airbus Industrie, a consortium of four European companies that collectively produce Airbus aircraft. According to the Office of the U.S. Trade Representative (USTR), Airbus member governments (France, U.K., Germany and Spain) have provided massive subsidies since 1967 to their member companies to aid in the development, production, and marketing of the Airbus family of large civil aircraft. As described in USTR’s annual trade barrier report, “these subsidies have enabled Airbus to garner a 50-55% market share, substantially eroding the near dominant position that Boeing and McDonald Douglas held.” The U.S. has also accused the EU of providing other forms of support to gain an unfair advantage in this key sector, including equity infusions, debt forgiveness, debt rollovers, marketing assistance, and favored access to EU airports and airspace.¹⁶

For its part, the EU has long resisted U.S. charges and argued that for strategic and economic purposes it could not cede the entire passenger market to the Americans, particularly in the wake of the 1997 Boeing-McDonnell Douglas merger and the pressing need to maintain sufficient global competition. The Europeans have also counter-charged that their actions are justified because U.S. aircraft producers have benefitted from huge indirect governmental subsidies in the form of military and space contracts and government sponsored aerospace research and development.¹⁷

Current tensions center on the British government’s plan to provide more than \$800 million in development support (so-called “launch aid”) to underwrite its company’s (Bae System’s) participation in the development of a new Airbus project

¹⁵Tangermann, Stefan. “The Common and Uncommon Agricultural Policies,” In *Transatlantic Relations in A Global Economy*, Mayer, Otto and Scharrer, Hans-Eckart, eds, Nomos Verlagsgesellschaft, 1999, p. 143.

¹⁶USTR National Trade Estimates Report: 2000, pp. 102-104.

¹⁷Burger, Bettina. “Transatlantic Economic Relations: Common Interests and Conflicts in High Technology and Industrial Policies,” In *Transatlantic Relations in A Global Economy*, p. 110.

- the A380 – a plane designed to be the world’s largest super-jumbo aircraft and the first serious rival to Boeing’s 747 jumbo airliner.¹⁸

The large commercial aircraft (jet aircraft with 100 or more seats) production industry is essentially a duopoly consisting of Boeing and Airbus. Until recently Airbus was a consortium of national aviation firms, some with close government ties, who cooperated to produce aircraft. As a result of recent European aerospace consolidation, Airbus is now owned by just two firms, EADS and BAE systems. Airbus itself is reforming as a public firm under the name Airbus Integrated Company. In recent years, after two decades of trying, Airbus has come close to achieving parity in sales with Boeing.

The basic premise of the dispute is whether, as U.S. trade officials contend, Airbus is a successful participant in the market for large commercial jet aircraft not because it makes competitive products, which by all standards it does, but because it has received significant amounts of governmental subsidy and other assistance, without which it probably would not be able to enter and participate in the market. The assistance from the governments of France, Germany, Spain, and Great Britain arguably have included infusions of equity, debt forgiveness, debt rollovers and marketing assistance, including political and economic pressure on purchasing governments. Airbus, not surprisingly, does not accept the U.S. view of the reasons for its success.

At issue in the A380 development is at least \$3.1 billion in already identified direct loans to be provided by seven of the nine EU Member State governments in the A380 development. The total cost is estimated to be \$12 billion. The United States is concerned that the level of state-aid needed for this project could violate Member States’ adherence to their bilateral and multilateral obligations, including the WTO Agreement on Subsidies and Countervailing Measures (SCM). The United States has urged the Airbus member governments to ensure that the terms and conditions of their support for the A380 are consistent with commercial terms and rates and with their international obligations.

During 2001 the Bush Administration pressed the EU for more information about the financing of the A380. The EU responded with mostly general information on the scope and nature of government support for the A380. The United States continues to request more detailed information.

Steel. Conflict over steel is again a high priority issue. Although the EU industry has undergone significant consolidation and privatization in recent years, the U.S. government alleges that many EU companies still benefit from earlier state subsidies and/or engage in dumping steel products (selling at “less than fair value”) in foreign markets. U.S. steel companies have aggressively used U.S. trade laws to fight against EU steel imports by filing antidumping and countervailing duty petitions

¹⁸The United States also continues to be concerned about the use of European aircraft certification standards to impede sales to Europe. According the 2000 Trade Estimates report released by USTR, , processes and procedures employed by the European Joint Aviation Authorities (JAA) appear cumbersome, and arbitrarily enforced.

that include imports from EU countries. In return, the EU has countered with five recent challenges in the WTO against the alleged U.S. misuse of its countervailing duty and antidumping laws. Moreover, the EU, along with eight other petitioning countries, initiated on July 10, 2001 a WTO dispute resolution complaint against the so-called “Byrd” law, which allows duties collected under the U.S. antidumping and countervailing duty statutes to be returned to the injured U.S. industry. The law was passed with major backing of the U.S. steel industry.

In addition to “unfair” trade disputes, President Bush announced June 5, 2001 that his Administration would call upon the U.S. International Trade Commission (ITC) to begin an investigation on international trade in steel under Section 201 of U.S. trade law. He also announced that he would seek multilateral negotiations with U.S. trading partners on fundamental issues of global overcapacity and government subsidies. The President was reacting to continued problems in the U.S. steel industry, parts of which still have not recovered from a major import surge in 1997-98. The rise in imports to more than a quarter of U.S. finished steel consumption was stimulated by financial crises in Asia, Latin America and Russia, which reduced demand in those markets, and by the dramatically lower dollar-equivalent prices for many foreign producers. After a partial recovery in 1999-2000, the U.S. industry has again been affected by imports rising to more than 20% of finished steel consumption, record-high levels of semi-finished products and falling market demand and prices.

Section 201 relief, often referred to as “safeguard,” provides for temporary restrictions on imports that have surged in such quantities as to cause or threaten to cause serious injury to a domestic industry. The procedure is compatible with the rules of the World Trade Organization (WTO). A Section 201 case does not in itself need to demonstrate dumping, subsidization or other unfair practices by U.S. trading partners.

The ITC in October determined that U.S. producers of about 80% of U.S.-made steel are being injured by imports. The decision does not automatically mean that quotas or duties will be imposed on the products found to be causing the injury. The decision is left to the President, following recommendations from ITC on what remedy to impose.

On March 5, 2002, President Bush announced trade remedies for all products on which the ITC had found substantial injury except two speciality categories. All remedies or import restrictions will be for a 3-year period beginning on March 20, 2002. The tariffs will be up to 30% on approximately \$8 billion in steel imports. Canada, Mexico, and other U.S. free trade partners were exempted from all tariffs.

The U.S. decision raised cries of indignation and protectionism from European leaders, and prompted a quick response. On March 27, 2002, citing a threat of diversion of steel from the U.S. market to Europe, the EU announced provisional tariffs of 15% to 26% on 15 different steel products. More provocatively, the EU took initial steps under an untested provision of the WTO safeguards agreement to impose retaliatory tariffs by as early as June 18, 2002 on U.S. exports without an explicit authorization to act.

If Brussels decides on swift retaliation rather than waits for the WTO to rule on whether the U.S. steel tariffs are a violation of world trade rules, U.S. trade officials will be under great pressure to counter-retaliate. In this context, U.S.-EU trade tensions are likely to escalate and potentially more explosive disputes involving the tax benefit for U.S. exports and the EU's policy towards approval of ne GE products could become more difficult to manage.

Clashing State Interests: Foreign Policy Conflict

This category comprises conflicts where the United States or the European Union has initiated actions or measures to protect or promote their political and economic interests, often in the absence of significant private sector pressures. The underlying causes of these disputes are quite different foreign policy goals and priorities, if not interests. Most of these conflicts have important economic interests at stake, but seldom are the economic stakes viewed as the overriding cause or explanation of the action that ostensibly precipitated the disagreement.

From the EU perspective, extraterritorial provisions of U.S. sanctions legislation and unilateralism in U.S. trade legislation are concerns that fit into this category. From a U.S. perspective, the EU's preferential dealings with third countries, the FSC export tax-rebate dispute, and challenges to varied U.S. trade laws could be said to be driven primarily by EU foreign policy priorities.

EU Concerns. U.S. legislation which requires the imposition of trade sanctions for foreign policy or non-trade reasons has been a major concern of the EU. While the EU often shares many of the foreign policy goals of the United States that are addressed in the offending legislation, it has opposed the extraterritorial provisions of certain pieces of U.S. legislation that seek to unilaterally regulate or control trade and investment activities conducted by companies outside the United States. Some of the EU's complaints are directed at the Cuban Liberty and Democratic Solidarity Act of 1996 (so-called Helms-Burton) and the Iran and Libya Sanctions Act (ILSA), which threaten the extraterritorial imposition of U.S. sanctions against European firms doing business in Cuba, Iran, and Libya. Other EU concerns about different instances of U.S. extra-territoriality relate to various environmentally driven embargoes, export control legislation, and sub-federal (states) procurement provisions.¹⁹

The Helms-Burton Act, passed in 1996 after the Cuban military shot down two small U.S. based civilian planes, led to a firestorm of protest in Europe. Perhaps not since the U.S. imposed sanctions against companies doing business on a Russian pipeline in the early 1980s had the European outcry been so vociferous. The bill, which was designed to further isolate Cuba economically, imposed a secondary

¹⁹The EU has been particularly critical of efforts by U.S. states and cities to limit government procurement opportunities as a result of the companies' business links with particular foreign countries. A law adopted by Massachusetts focused on corporate involvement with Burma had been a considerable concern until it was overturned by the Supreme Court on June 19, 2000.

boycott against foreign nationals and companies that “traffic “in Cuban-expropriated properties formerly owned by U.S. nationals.²⁰

Maintaining that Helms-Burton is extraterritorial and a violation of WTO rules, the EU passed countervailing legislation against its enforcement and initiated a WTO panel investigation. The U.S. responded by claiming the WTO lacked competence to investigate the matter because Helms-Burton is a “national security” issue and therefore should qualify for a waiver under section 21 of the GATT. After a year of high-level political negotiations, an understanding was reached in April 1997 that charted a longer-term solution through negotiation of international disciplines and principles for greater protection of foreign investment, combined with the proposed amendment of the Helms-Burton Act. In May 1998, the United States agreed to either implement or seek measures that would protect EU companies from any penalties called for in Helms-Burton and Iran-Libya Sanction Act.²¹

Closely related to EU concerns about extraterritoriality are complaints about U.S. trade laws and procedures that allow for the “unilateral” imposition of trade sanctions against offending countries or companies. Most EU complaints relate to the “Section 301” family of trade provisions which authorize the executive branch to impose trade sanctions in an effort to enforce U.S. rights under international trade agreements and to combat foreign unfair trade practices. In addition to general trade barriers which the U.S. government deems discriminate against or burden U.S. commerce, other more specialized provisions dealing with government procurement barriers and intellectual property rights violations are also subject to EU charges as examples of U.S. unilateralism.²²

Additionally upsetting to some American interests, the EU during this same period has filed a number of mostly technical challenges in the WTO to a variety of U.S. trade statutes, including Section 301, a law (section 337) dealing with the protection of intellectual property rights, and the U.S. antidumping laws. Some Americans view these WTO challenges as part of a systematic and concerted EU strategy to weaken or gut U.S. trade laws, perhaps in an effort to gain negotiating leverage that could be used in future efforts to arrive a transatlantic consensus on the agenda for a new round of multilateral trade negotiations.²³

U.S. Complaints. The United States has expressed concerns about the discriminatory impact of preferential agreements the EU has negotiated with third countries. These include preferential trade agreements with prospective EU members in Eastern and Central Europe and with developing countries in Africa and

²⁰This provision has been waived by President Clinton annually since its enactment.

²¹“EU, Spain Warn U.S. of Action Over Helms-Burton Cuba Measure,” *International Trade Reporter*, August 18, 1999, p. 1364.

²²On May 1, 2000, USTR announced the successful resolution of a dispute with Germany over procurement procedures in the heavy electrical sector, but placed the EU, Italy, Ireland, and Greece on the “priority watch list” for intellectual property rights violations.

²³Statement of Senator Max Baucus, “Improving U.S. Trade Law,” Conference on America’s Trade Agenda After the Battle in Seattle, July 20, 2000.

the Caribbean. As a result of these agreements, only eight countries including the United States, Japan and Canada, now receive MFN treatment for their exports to EU. The rest of the world is accorded better than MFN tariff treatment under these agreements, which the WTO has determined, are increasingly structured to benefit the EU, not just the other signatory in the agreement.²⁴

To address this problem, the United States has been pressing countries like Hungary and Poland to reduce tariffs on industrial products down to the level of the EU's common external tariff (CET) in advance of joining the EU. Those countries apply lower tariff rates on EU products, which the United States believes disadvantages U.S. exporters and may violate world trade rules. U.S. companies most concerned about differential tariff rates applied to U.S. and EU products include those that export aircraft, autos, and electrical generating equipment.²⁵ Withdrawal of Generalized System of Preferences (GSP) duty-free benefits is one threat the U.S. reportedly has employed to address the problem.²⁶

Some U.S. observers have also worried that enlargement and institutional deepening have become EU policy goals that are limiting its commitment to global trade liberalization. Under this view, the EU's "internal" preoccupation translates into less interest in negotiating any new MFN or WTO obligations because such obligations could intensify adjustment pressures EU firms are experiencing as a result of the drive toward a single market and the heightened import competition resulting from preferential tariff agreements negotiated with various regional trading partners.²⁷ At the same time, the United States has also supported both enlargement and deepening in the political interest of "European stability", thus raising a question concerning the compatibility of U.S. political and trade goals.

For its part, the EU has expressed fears that free trade agreements being pursued by the United States could lead to discrimination against its exports. Specifically, the EU is concerned that U.S. efforts to negotiate free trade agreements with Asia through the Asian Pacific Economic Cooperation (APEC) process and with Latin America through the Free Trade Area of the Americas (FTAA) could lead to discrimination against EU exports. This, in turn, has been a spur for the EU to negotiate its own free trade accords with Mexico, and the Mercosur countries of Latin America.

A different U.S. concern relates to the Foreign Sales Corporation (FSC) provisions of the U.S. tax code. This provision allows U.S. firms to exempt between

²⁴ "WTO Members Use Trade Policy Review To Criticize EU Practices, *Inside U.S. Trade*, July 14, 2000.

²⁵ "U.S., EU Split on Differential Tariffs in Prospective EU Members," *Inside U.S. Trade*, April 14, 2000.

²⁶ "Hungary Resisting Commerce Demands to Adopt EU Common Tariff," *Inside U.S. Trade*, August 6, 1999.

²⁷ Schott, Jeffrey J. "Whether U.S.-EU Trade Relations?", in Eichengreen, Barry, ed., *Transatlantic Economic Relations in the Post-Cold War Era*, Council on Foreign Relations, 1998.

15% and 30% of export income from taxation by sheltering some income in offshore foreign sales corporations. General Electric, Boeing, Motorola, Caterpillar, Allied Signal, Cisco, Monsanto, and Archer Daniels Midland are among the top beneficiaries of this arrangement.²⁸

The FSC was enacted in 1984 to replace the Domestic International Sales Corporation (DISC) - a different tax benefit for exporting that the EU had successfully challenged in the GATT. Both provisions were designed to stimulate the U.S. economy through increased exports. While the European officials may not have been fully satisfied that the FSC was fully GATT legal, they nevertheless waited thirteen years (until November 1997) to take the first steps to challenge the scheme under the WTO dispute settlement system. The challenge, as explained previously, was successful, with the requirement that the U.S. bring the FSC provisions in conformity with the WTO by October 2000. Absent compliance, the EU could request compensation from the United States or request the WTO to authorize retaliation on as much as \$4 billion of U.S. exports. Such a scenario, most observers feel, could risk the outbreak of a major trade war.

The EU argues that it challenged the FSC because it violates WTO subsidy obligations, distorts international competition, and provides U.S. exporters unfair advantages. Yet, with the possible exception of Airbus, the Brussels challenge appears to have very limited backing from European business.²⁹ A number of European subsidiaries operating in the United States, in fact, benefit from the FSC.

A more common explanation is that the EU challenge had more to do with an attempt to gain negotiating leverage over the United States, as well as with getting even for U.S. pressures over beef and bananas, than to redress a perceived commercial disadvantage. A Financial Times editorial views the challenge as “tit-for-tat retaliation for U.S. bullying in trade disputes over bananas and beef. Having won its point, the EU now seems determined – in the name of upholding trade rules – to make the U.S. squirm.”³⁰

Social, and Environmental Protection: Domestic Policy Conflict

This category of conflict deals with an array of domestic policies, including regulations and standards, that produce conflict by altering the terms of competition in the name of promoting social, cultural, or environmental objectives. Most generally, domestic producers benefit, either intentionally or inadvertently, at the expense of foreign producers. Many of these clashes have occurred as a result of efforts by both partners to strengthen food safety and environmental standards; others

²⁸Brumbaugh, David L. *The Foreign Sales Corporation (FSC) Tax Benefit for Exporting and the WTO*, CRS Report RS20571.

²⁹One source cites Airbus Industrie’s concerns in the early 1990s over the FSC benefits Boeing was receiving. See *Airline Business*, “Flying FSCs Anger Airbus,” May 1993, p. 21.

³⁰ “Taxing the WTO to the Limit,” *Financial Times*, September 4, 2000, p. 8.

have occurred as a result of the EU's need to harmonize standards in support of its drive towards a single market. Still others have occurred as a result of a drive to maintain or promote cultural values and distinctiveness.

These disputes tend to involve complex new issues that have arisen as a result of increased economic interdependence and of significant U.S.-EU differences in social and regulatory approaches. The EU approach to regulation is based on the notion that every important economic activity should take place under a legal framework, whereas the central premise of the U.S. approach is that government does not need to regulate unless a problem arises.

While the impact on trade may be the same as in other disputes, these conflicts are often characterized by delicate considerations of motives. Parties that have initiated the action, often consumer or environmental groups, tend to view the protective impact as an indirect consequence of an attempt to attain some valid domestic objective. Trade barriers motivated by food safety, for example, may be considered more legitimate by the public than barriers motivated by economic protectionism. If food safety is perceived as being sacrificed to free trade, support for free trade could erode. Similarly, if food safety is used as a disguise for protectionism, support for free trade could also erode.

The four disputes summarized below are rooted in different regulatory approaches and public preferences. Disputes over beef hormone and genetically engineered crops stem primarily from stronger European societal preferences for high food safety standards. A longstanding dispute over the EU's audio-visual sector has a strong cultural basis, steeped in a perceived need to preserve West European society from the U.S. dominance. And a clash over an EU regulation banning airplanes outfitted with "hushkitted" or retooled engines ostensibly is driven by environmental demands to reduce noise pollution surrounding European airports.

Numerous other disputes could also be included in the following discussion. For example, a recently settled dispute over data privacy reflects very different approaches between the U.S. and EU, as well as popular attitudes, towards the protection of personal information that is transmitted electronically. The issue of "multi-functionality" in agriculture, where the Europeans claim agriculture is more than just another industry, has deep cultural roots that divide the two sides. Disputes involving environmental, wildlife, and animal welfare protection, such as U.S. restrictions on imports of tuna from Europe and EU efforts to ban fur imports from the United States, also reflect competing social and cultural differences.

Beef Hormones. Begun in 1985, the dispute over the EU ban on the production and importation of meat treated with growth-promoting hormones is one of the most bitter and protracted disputes between the United States and Europe. The dispute stems from the divergence of U.S. and EU standards for the sale of beef and beef products from animals that have been treated with growth hormones.

The EU justified its ban to protect the health and safety of consumers. Highly publicized accounts in the early 1980s of Italian children growing unusual sexual characteristics as a result of consuming veal treated with hormones prompted a vigorous consumer and environmental campaign to prohibit growth hormones in

animal production. Coupled with a strong ecology movement in favor of ‘natural’ food products, the European Community (EC) implemented the ban in 1989.³¹

Consumer support for the ban was buttressed by economic considerations. In the mid-1980s, the CAP had led to the accumulation of large and costly beef surpluses, perhaps making any measure that would limit beef imports likely to compete with domestic production quite tempting.³²

In January 1996, the United States initiated a challenge in the WTO to the ban on the grounds that it was inconsistent with the WTO Sanitary and Phytosanitary Agreement (SPS). This agreement, which in fact was prompted by the beef hormone controversy, defined new criteria that had to be met when a country imposed food safety import regulations more stringent than those agreed upon in international standards. These included scientific assessment that the measure was needed, along with a risk assessment. Despite a lack of scientific evidence that the hormones posed a health risk, the EU refused to remove the ban after receiving an adverse WTO panel finding in 1998. Many European politicians countered that even if numerous scientific studies had found hormone-treated beef to be harmless, European consumers would still be opposed to the meat.³³

The European position is steeped in what is known as the “precautionary principle.” This approach allows that an industrial activity or product that is thought to cause possible harm to humans or the environment should be banned even if only limited scientific evidence exists that it may be harmful. The U.S. approach to food safety regulatory activities, in contrast, tends to rely on risk assessment as an important method by which science can be used to address food safety issues.³⁴

Spearheaded by concern for consumer protection, the EU decided in 1999 to accept U.S. retaliation against its exports, rather than to lift the ban. While the EU offered to negotiate compensation, the United States determined that would be acceptable only as an interim solution until the EU lifted the ban. U.S. and EU negotiators have yet to find a compromise solution.

On the surface, the economic stakes for the United States are relatively small. The ban affects an estimated \$100-\$200 million in lost exports – less than one-tenth of one percent of U.S. exports to the EU in 1999. But many U.S. interest groups support a hard line in this case because they fear that it could set a precedent for keeping other products out of Europe based on health standards that lack a legitimate scientific basis by U.S. standards. Other U.S. parties are concerned that the ban stri

³¹On November 1, 1993, The Treaty on European Union (Maastricht Treaty) went into effect, establishing the European Union, which encompasses the EC.

³²Hanrahan, Charles. *The European Unions’s Ban on Hormone-Treated Meat*, CRS Report RS20142.

³³The EU supports the precautionary principle, and states that it is waiting for studies that will show more precisely any dangers posed by the hormones.

³⁴Parish, Mickey. “Science Behind the Regulation of Food Safety: Risk Assessment and the Precautionary Principle,” *Congressional Research Service*, August 27, 1999.

kes at a much larger U.S. interest: its comparative advantage in applying modern technological advances to agricultural production. If beef from cows that had ingested growth hormones could be banned, what about processed food made with chemical additives or genetically engineered crops?³⁵

The EU has indicated its intention to make the ban on hormone-treated meat permanent, while at the same time expressing some openness to discussions about a compensation arrangement which would increase the EU's market access for non-hormone treated beef from the United States. To date, however, EU offers of compensation for lost U.S. meat exports in lieu of lifting the ban have been rejected by the United States.

Genetically Engineered Crops. Differences between the United States and the EU over genetically engineered (GE) crops and food products that contain them pose a potential threat to, and in some cases have already disrupted, U.S. agricultural trade. Underlying the conflicts are pronounced differences between the United States and EU about GE products and their potential health and environmental effects.

Widespread farmer adoption of bio-engineered crops in the United States makes consumer acceptance of GE crops and foods at home and abroad critical to producers, processors, and exporters. U.S. farmers use GE crops because they can reduce input costs or make field work more flexible. Supporters of GE crops maintain that the technology also holds promise for enhancing agricultural productivity and improving nutrition in developing countries. U.S. consumers, with some exceptions, have been generally accepting of the health and safety of GE foods and willing to put their trust in a credible regulatory process.

In contrast, EU consumers, environmentalists, and some scientists maintain that the long-term effects of GE foods on health and the environment are unknown and not scientifically established. By and large, Europeans are more risk averse to the human health and safety issues associated with bio-engineered food products than U.S. citizens.

In 1999 the EU instituted a *de facto* moratorium on any new approval of GE products. The moratorium has halted some \$300 million in U.S. corn shipments. EU policymakers also moved toward establishing mandatory labeling requirements for products containing GE ingredients. Subsequently, the EU has put in place legislation to restart the process of approving GE crop varieties, but has yet to complete regulations on labeling GE foods. On July 25, 2001, the European Commission proposed stringent rules on labeling and traceability of GM food and animal feed. U.S. biotechnology, food, and agriculture interests are concerned that these regulations, if adopted by the EU governments and EU Parliament, will deny U.S. products entry into the EU market and may seek to challenge them in the WTO.

The Bush Administration in late August 2001 reiterated its view that regulatory approaches toward products of biotechnology should be transparent, predictable, and

³⁵Vogel, David, *Barriers or Benefits: Regulation in Transatlantic Trade*, Brookings Institution, 1997, pp. 23-24.

based on sound science. Moreover, the Administration made clear that it would mount an aggressive campaign against proposed EU labeling and traceability regulations by pressing the EU not to adopt regulations that would violate WTO rules or hurt U.S. exports. On February 7, 2002, USTR Zoellick stated that the United States is “very strongly” considering filing a formal dispute settlement complaint in the WTO over the EU’s failure to lift its moratorium on imports of GMOs. EU Trade Commissioner Pascal Lamy countered that U.S. action along these lines would be “immensely counterproductive” because it would be seen as a challenge to “consumer fears and perceptions.”

The April 2002 National Trade Estimates report, released by the Office of the U.S. Trade Representative, warned the U.S. is evaluating its next steps for altering the EU moratorium. A U.S. trade official defined that as including both continued consultations with the Commission, which is trying to unblock the approval process, as well as bringing a WTO case. Few observers predict a change in the EU approval process will occur this year.

Audio-Visual Sector. This dispute dates back to 1989 when the EU issued a Broadcast Directive that required that a majority of entertainment broadcast transmission time be reserved for programs of European origin “where practicable” and “by appropriate means.” All EU member states enacted legislation implementing the Broadcast Directive by 1993.³⁶

Implementation of the directive has varied from country to country. In general, efforts to strengthen European content quotas have failed to materialize, but a number of countries have passed specific laws that hinder the free flow of programming. France, for example, has prime time rules that limit the access of U.S. programs in prime time. Italy also has a European content prime time rule, as well as requirements that large movie theaters show EU films on a “stable” basis. Spain requires television stations to reserve 51% of their annual broadcast time to European audiovisual works.

Within the EU, the Broadcast directive has been controversial. Efforts to tighten restrictions have been opposed by Germany and Britain and by some elements of the European industry. Moreover, consumer demand for foreign movies, coupled with technological innovation through the introduction of cable and satellite television, have undermined movement in the direction of increased protection.

The dispute highlights European concerns, particularly in France and Italy, about creeping “Americanization” threatening to undermine their national identities and cultures. It also underlines a fundamental U.S.-EU divide over the role of cultural and social issues in trade disputes. While the U.S. tends to assign priority weight to maximizing the economic value of efficiency in trade negotiations, the EU, by attitude and law, places more weight on environmental and cultural values.

Aircraft Hushkits. European skies are quite crowded with aircraft, airports tend to be situated in heavily populated areas, and there is a serious noise problem.

³⁶Office of the United States Trade Representative, *2000 Trade Barrier Report*, p. 113.

Public concerns about aircraft noise are combined with environmental policy discussions about emissions and greenhouse gases. To deal with this problem, the EU attempted in 1997 to develop an EU-wide noise standard. When it became clear that any such standard would likely impose high economic costs on European manufacturers and airlines, the EU advanced a regulation that would limit the operation of “hushkitted” aircraft in European skies.

Hushkitting is a process that involves a combination of strategies, including renovated engine enclosures and replacement engine components, designed to reduce aircraft noise. Under standards adopted by the EU, it does not provide major reductions in noise levels.³⁷

As formally implemented by the EU on May 4, 2000, the vast majority of aircraft affected by the regulation are of U.S. manufacture. Also adversely affected are mostly U.S. manufacturers of noise reduction technology and new engines for older aircraft. Conversely, all European Airbus aircraft are unaffected and there are no major European hushkit producers. The U.S. aerospace industry estimates that the regulation has cost its airlines and manufacturers \$2 billion.

On March 14, 2000, the United States filed a motion with the International Civil Aviation Organization (ICAO) seeking relief from the EU’s regulation. The U.S. case maintained that the regulation does not comply with ICAO regulations and discriminates against U.S. interests. Proceedings were suspended pending settlement negotiations. In early 2002, a settlement was reached under which the EU repealed the regulation and the U.S. withdrew its complaint.

Potential For Future Conflict

The three categories of trade conflicts - traditional, foreign policy, and domestic - appear to offer different possibilities for future conflict. This is due not only to the fact that the causes and dimensions of these categories of conflicts differ, but also because the institutional relationships and forces that affect the supply of and demand for protection are operative in varying degrees from category to category. These factors include the presence or absence of bilateral or multilateral agreements and rules that govern the settlement of the disputes, the extent to which the disputes fit into the standard free trade versus protectionism dichotomy, and the relevance of underlying economic and political trends.

- Bilateral and multilateral trade agreements can dampen the inclination of governments to supply protection and the private sector to demand protection by providing a fairly detailed “road map” of permissible actions and obligations. While often litigated and disputed, the obligations tend to be relatively clear-cut and help resolve disagreements. When new spats arise, built-in procedures of many agreements can facilitate a settlement or help avoid escalation.

³⁷For a full discussion, see Fischer, John W. *Aircraft Hushkits: Noise and International Trade*, CRS Report RL30547.

- Conflicts that fall into the standard free trade versus protectionism dichotomy also have a built-in potential for undercutting any rationale governments may have to supply protection or private parties may use in demanding protection. This happens due to an ideological consensus in both the U.S. and EU in favor of resisting protectionism on both economic and political grounds. As a result, most demands for protection from producer interests must be justified as exceptions to the generalized support for freer trade arrangements and policies.
- Diverse economic and political trends can also suppress the supply and demand for protection. For example, declining support for industrial policy initiatives, as has been the case in both the U.S. and EU, could make industry-specific pleas for government assistance less compelling. High priority political commitments, such as the EU's policy towards enlargement, may also create incentives for reform and liberalization as opposed to protection.

Applying these criteria to the three categories of trade disputes, there are grounds for judging that traditional trade conflicts may become less disruptive to the bilateral relationship in the future, but more limited grounds for projecting a diminution of foreign policy induced friction. The prospects for future domestic-policy related trade disputes fall somewhere in between these two extremes, with reasons for foreseeing a reduction in friction associated with some disputes, but not all. The basis for this assessment is presented below.

Traditional Trade Conflict

Traditional trade conflicts, involving demands from producer interests for protection or state aids, by definition raise fairly routine commercial questions that have been addressed by governments for decades. As a result, most are governed by some bilateral or multilateral agreement or understanding. Key elements of conflicts involving agriculture, aerospace, and steel are no exception.

The Uruguay Round Agreement on Agriculture has significantly dampened trade conflict in the areas of EU home market protection and export subsidy wars for third country markets. A 1992 U.S.-EU agreement on aircraft production subsidies and the multilateral agreement on subsidies provides the terms of engagement for any new clashes over "launch" aid for the A380. Steel trade conflict in recent years has pivoted around the utilization of anti-dumping and safeguard laws, procedures that both the U.S. and EU employ with considerable frequency and which both sides in the past have considered legitimate. The fact that the steel trade battle in 2002 has been so heated may stem from a mutual perception that each side is not adhering to the letter or spirit of the safeguards agreement.

Traditional trade conflicts also tend to fit into the standard free trade versus protectionism dichotomy. As in the case of the agriculture, aerospace, or steel, proposals or requests for additional protection or promotion will be subject to full transparency, investigation, and debate. Given that both the United States and European Union have open societies with an ideological consensus in favor of

competition and open markets, petitioners for protection will have the burden of arguing that their request merits being excepted from the dominant policy orientation.

Several economic and political trends may also serve to limit future disputes involving producer protection. These include a decline of support for industrial policy in both Brussels and Washington, budgetary pressures in the EU, and a rising level of foreign direct investment and corporate mergers.

Support for industrial policy initiatives, mostly efforts to use state aids to boost the competitiveness of specific sectors or build up national champions in particular industries, were considerable in the late 1980s and early 1990s in both the EU and United States. Based on new rationales for targeted assistance from states, the support for industrial policies posed new challenges to the maintenance of free trade orthodoxy. For a variety of reasons, such policies today are viewed quite skeptically in both Brussels and Washington, thereby lessening pressures for what many observers construed as a new and disguised vehicle for protectionism.

The issue of subsidies or state aids is closely related to the industrial policy debate. In Europe, with the movement towards a single market that is deregulated and more competitive, subsidies and state aids to individual companies have been increasingly challenged, scrutinized, and curtailed. This trend, which is reenforced by budgetary constraints associated with fiscal targets required of member states participating in the European Monetary Union, could serve not only as a strong force for reducing conflict in aviation and steel, but in other sectors as well.³⁸

A rising level of foreign direct investment and a wave of new corporate mergers are also forces for dampening demand for protection. As these trends accelerate, many formerly domestic or nationally-based industries will become increasingly globalized. The Daimler-Chrysler merger is an example where the answer to the question of 'who is us?' becomes increasingly blurred. Even in the production of a new Airbus plane, it is estimated that American suppliers will provide a considerable amount of the sourcing of the parts. These developments, in turn, tend to create forces that may moderate demands for protection.³⁹

A number of cross currents, of course, could create a much different outlook. Historically, many industries have been quite creative and successful in justifying demands for protection based on some unique argument. This has been particularly true in the area of agriculture where both sides have argued that agriculture is not just another industry.

The strength of the European agricultural lobby rests in part on public support for it as a means of preserving a way of life and a particular kind of environment perceived as worth preserving. On-going efforts in Brussels to reform the CAP must

³⁸Kahler, Miles. *Regional Futures and Transatlantic Economic Relations*, European Studies Association, 1995, p. 50.

³⁹Kahler, Miles, *Regional Futures and Transatlantic Economic Relations*, p. 51..

deal with this challenge. Absent reform, the peace clause, which ends in 2003, may only prove to be a nine-year truce.⁴⁰

Moreover, fundamental economic conditions can change rapidly. Bumper world crops creating an oversupply of basic agricultural commodities or an economic downturn creating an over-supply of steel could ignite old trade battles in steel and agriculture once again.

Foreign Policy Conflict

Unlike traditional trade conflicts, foreign policy inspired trade squabbles tend to lack the same kind of institutional arrangements and pressures that dampen the supply of and demand for protection. Nor are these conflicts easily framed along free trade and protectionism lines. Some of these conflicts, but not all, may be moderated in the future by lobbying efforts of big business on both sides of the Atlantic to maintain stable commercial ties. However, if Brussels or Washington is determined to use trade to achieve foreign policy objectives, lobbying efforts are unlikely to be successful in the absence of a transatlantic agreement to treat these issues in a more coherent fashion.

In most U.S.-EU sanctions conflicts, there are no bilateral or multilateral understandings that can help resolve very basic foreign policy differences over how to respond to violations by third countries of international norms affecting human rights or security. Many trade measures taken in a foreign policy context are either exempt from WTO disciplines because they are either mandated by the United Nations or applied against non-WTO countries, or only very loosely regulated by the WTO. The latter arises because the national security provision of GATT (Article 21) provides wide latitude for countries to pursue sanctions if they deem the measures to be in their national security interest.⁴¹

WTO rules also provide little guidance and “rules of the road” concerning preferential regional agreements. While the WTO set up a new Committee on Regional Trade Agreements in 1995 to highlight abuses of Article 24 provisions that allow regional agreements to deviate from the non-discrimination principle of the WTO, few challenges have been launched. A major obstacle has been the difficulty of measuring the value of trade diverted from efficient producers to the beneficiaries of preferences granted. As a result, the drive to cut preferential deals continues to grow (along with mistrust) while the ability to challenge deals that raise new trade barriers remains quite weak.

While the U.S. pursuit of market opening through unilateral means has declined since passage of the Uruguay Round Agreements in 1995, pressures in the United States to revisit this issue could grow. The EU’s refusal to implement WTO panel findings on bananas and beef hormone, coupled with continued attacks on U.S. trade laws, could lead U.S. policymakers to reconsider this Uruguay Round bargain of

⁴⁰Ibid.

⁴¹Schott, Jeffrey, “Whither U.S.- European Trade Relations?,” p. 59.

limits imposed on unilateralism in return for a more binding dispute settlement process.

The dispute the U.S. export tax benefit program raises a different issue. It can be argued that the WTO was not the proper forum in which the dispute should have been pursued. But existing WTO “rules of the road” evidently presented a target of opportunity for achieving other foreign policy goals, namely enhancing the EU’s negotiating leverage vis-à-vis Washington.

Pressures and temptations to apply sanctions against countries that violate international norms, to cut preferential trade deals, to act unilaterally in the pursuit of national trade interests, and to use the WTO to achieve foreign policy objectives are unlikely to go away. Nor are efforts of big and pro-trade business lobbies to curb future actions along these lines likely to be successful in the absence of a broad diplomatic undertaking or a pledge committing both sides to refrain from such actions. Such a pledge or non-aggression pact has been suggested as a way to bring greater coherence in areas of disagreement and in helping to achieve shared goals in a less contentious atmosphere. But little progress has been made, perhaps due to the high level of mutual suspicions, differences in diplomatic approaches, and foreign policy-making machinery.⁴²

Domestic Policy Conflict

The United States and the EU have made much progress bilaterally in mitigating divergent standards and certification systems as a source of bilateral trade conflict. Efforts have also been made multilaterally to manage trade conflicts that are driven by divergent regulations between the two partners in the areas of health, safety, and environmental protection. Although most of the domestic policy conflicts do not fit easily into a free trade versus protectionism framework, the outcomes often have led one side or the other to suspect that protectionist motives are at play. A variety of factors, including technological progress and changes in consumer preferences, may facilitate settlement of a number of the deep-seated issues that divide the U.S. and the EU.

Bilateral efforts to promote regulatory cooperation have been a top priority in both governments and private sectors since the signing of the “New Transatlantic Agenda” (NTA) and “Action Plan” in late 1995. The creation of the Transatlantic Business Dialogue (TABD), a multinational corporation-led initiative to lower trade and investment barriers across the Atlantic, spearheaded efforts to focus particular attention on problems posed by divergent standards and certification systems. In addition to promoting convergence in regulatory systems through the principle of “approved once, accepted everywhere,” efforts were undertaken to negotiate mutual recognition agreements (MRAs) covering key sectors such as pharmaceuticals and medical devices, and telecommunications equipment.⁴³

⁴²Frost, Ellen L. *Transatlantic Trade: A Strategic Agenda*. Institute for International Economics, 1997, pp. 54-64.

⁴³Schott, Jeffrey. “Whither U.S. -European Trade Relations,” p. 56.

In June 1997, the two sides reached agreement on a package of MRA's affecting six sectors, including electrical equipment, pharmaceutical products, telecommunications and information technology equipment. Each side basically accepted the others' inspection, testing, and certification standards in these sectors. The agreements, which covered around \$50 billion in U.S.-EU trade, allowed European companies to sell products directly into the U.S. market after they have been tested and certified to U.S. health and safety standards, and vice versa. In addition to saving companies hundred of millions of dollars in redundant costs per year, the agreements had the potential to preempt a number of potential trade disputes.⁴⁴

Under the 1998 Transatlantic Economic Partnership (TEP), the two sides agreed to begin negotiation of MRA's in other sectors, including regulatory processes connected with biotechnology. How far this process may extend is an open question, particularly given that the application of biotechnology to food production has been a deeply divisive issue as evidenced by the beef hormone and GMO cases that have resulted in import bans.⁴⁵

There are numerous challenges raised by the application of modern biotechnology to food production. The Uruguay Round Sanitary and Phytosanitary Standards (SPS) Agreement was designed to deal with this issue. It requires countries that impose regulations or trade bans to protect the health of plants, animals, and people to base such decisions on risk assessments on sound scientific evidence.⁴⁶ But the SPS requirement of a sound scientific basis is open to varying interpretations.

Ambiguities in the SPS agreement are complicated because many European consumers may believe that avoidance of production practices associated with biotechnology is a value in itself. For these consumers, scientific studies showing that such technologies do not result in threats to human or animal health may not be convincing. Given these strong views, many European officials want leeway to impose trade restrictions on a "precautionary basis" and others want to renegotiate the SPS agreement. Both avenues could open up a large loophole for discriminatory trade barriers.

More ominously, some analysts are concerned that European agricultural policy makers may be "under pressures to guarantee higher levels of safety than strictly is necessary in order to maintain consumer confidence in the food system."⁴⁷ Even if these conflicts are not primarily due to the deliberate use of health, safety, or

⁴⁴Frost, Ellen. *Transatlantic Trade: A Strategic Agenda*, p. 6

⁴⁵Implementation of the 1997 MRA's is also currently being contested. See "EU Accuses U.S. of Failing to Implement MRA's on Electrical Safety, Pharmaceuticals," *International Trade Reporter*, November 2, 2000.

⁴⁶A related multilateral code, the Agreement on Technical Barriers to Trade (TBT), covers other types of regulations such as labeling and packaging.

⁴⁷Josling, Tim. "Comment on Stefan Tangermann," In *Transatlantic Relations in A Global Economy*, p. 166.

environmental standards as trade barriers, mistrust grows in terms of how much effort government authorities may have put into managing public concerns through educational efforts. Under these circumstances, one analyst has argued that trade disputes resulting from such differences are unlikely ever to be resolved; at best they can be contained.⁴⁸

On the other hand, transatlantic consumer views may be converging in some areas. For example, while U.S. consumers generally have been quite receptive to GMO's, Kraft Foods' nationwide recall in 2000 of taco shells that contained a genetically engineered corn not approved for human consumption indicates some underlying discontent. The recall was initiated by a coalition of environmental and consumer groups critical of bio-engineered food.⁴⁹ Others argue that in a number of other areas, including corporate mergers and Internet privacy, the European Union's more active role in protecting consumers will gain growing appreciation and support in the United States.⁵⁰ At the same time, the European Commission is seeking actively to re-create an approval process for GMO crops, moving to establish a pan-EU food agency, and proposing action to provide consumers with more information on GM foods.

In other disputes, technological progress can be a force for change. The audio-visual dispute is a case in point where EU efforts to increase protection of this sector have faced growing technological obstacles, as well as consumer resistance. Rapid technological innovation in the form of cable and satellite television, innovations strongly supported by consumers, offer new products that are difficult to block or regulate. Regulations in this environment often are too complex to enforce or, if enforced, prove adverse to the interests of European producers.⁵¹

Trade Conflict in Perspective

Mark Twain reportedly once said of Wagner's music that "it is not as bad as it sounds." Similarly, U.S.-EU trade conflicts may not be as ominous and threatening as they appear. Despite the rise in trade tensions and episodes of tit-for-tat retaliation over the past two years, the notion that the relationship between the world's two most powerful economic powers is constantly teetering on the brink of a transatlantic trade war seems a stretch. Nor does it appear that the trade conflicts represent or symbolize any kind of fundamental rift that is possibly developing between the United States and Europe.

⁴⁸Vogel, David. *Barriers or Benefits?*, Brookings Institution, 1997. p. 62.

⁴⁹Pollack, Andrew. "Kraft Recalls Taco Shells With Bio-engineered Corn," *Washington Post*, September 23, 2000, p. B1.

⁵⁰Richter, Stephan-Gotz, "The U.S. Consumer's Friend," *New York Times*, September 21, 2000, p. A31.

⁵¹Kahler, Miles. *Regional Futures and Transatlantic Economic Relations*, Brookings Institution, 1997, p. 53.

At the same time, the disputes do not appear to be ephemeral distractions or mere consequences of a mass media that grossly distorts, sensationalizes, and defines the relationship unfairly. Nor are they products of trade negotiators, who like generals, are often accused of fighting the last war. Nor are they trivial or silly squabbles because they represent a mere 1-2% of transatlantic trade.

Trade conflicts rather appear to have real, albeit limited, economic and political consequences for the bilateral relationship. Perhaps more significantly, trade disputes may also pose very real obstacles for the two partners in their efforts to play a leadership role in promoting a more open and prosperous world economy. This is particularly evident in the way bilateral trade disputes may be testing the functioning of the World Trade Organization.

Relationship Impact

The economic and political impacts that result from U.S.-EU trade disputes can be easily identified, but are much harder to quantify. In both cases, a variety of forces effectively contain the economic and political costs from rising or getting out of hand.

The \$300 million in retaliatory tariffs levied on European exports over the banana and beef disputes provide the most visible economic costs associated with on-going U.S.-EU trade. The 100% tariffs are designed to dramatically increase the costs of selective European products, thereby making it much more difficult for those “targeted” foreign producers to sell in the U.S. market. In theory, foreign exporters denied access to the U.S. market are expected to pressure their respective governments to change the policies that are in violation of WTO rules.

Retaliation is not, however, cost-free. The process also hurts U.S. importers, consumers, and firms dependent on those imports as inputs in their production process. These entities intensively lobby Congress and the administration to keep their products off any retaliation list that is drawn up. Domestic political pressures, thus, limit the scope and flexibility U.S. trade officials have in devising a retaliation list. As a result, most retaliation lists tend to be dominated by luxury items, such as truffles and specialty cheeses, or high value-added agricultural items that are also produced in the United States. Under these conditions, coming up with a list of products whose export value matches the relatively small sum of \$300 million is no easy task.⁵²

Attempts by either Brussels or Washington to retaliate on a much larger value of trade could be expected to ignite a firestorm of political opposition. The huge stake each side has in the other’s market through foreign direct investments, merger and acquisition activity, combined with “globalized” patterns of production, would

⁵²The task is further complicated by the incomes and tastes of American consumers. The 100% tariffs levied against European products such as truffles, jams, Roquefort cheese, chicory, specialized mustard, and biscuits have had very little impact in cutting back on sales in the United States over the past year. “Administration Still Uncertain on Carousel,” *Washington Trade Daily*, September 26, 2000.

likely serve as major counter-forces to any rise in trade warfare. These trends create extensive overlapping interests among companies and strong incentives to contain disputes. In globally traded sectors, mass production in a single location is becoming rare as companies source inputs, research, design, and marketing strategies from all over the world. This, in turn, shrinks the scope of, as well as complicates, the definition of what is domestic production or a domestic company.

In terms of political impacts, trade disputes likely have some effect on public opinion and attitudes, as well as connect in some way to other transatlantic problems. Polls indicate that there is a great deal of fear in Europe that the United States, due to the strength of its economy, has the ability to impose both economic and social changes on the rest of the world. This fear and perhaps frustration may translate into antipathy to the United States, often expressed as anti-Americanism. U.S. retaliation against Europe for not accepting hormone-enhanced beef, for example, may only fuel these generalized anti-American feelings that the United States is a bully.⁵³

The reaction to U.S. retaliation may be even more acute among some European policymakers. By selectively targeting only those EU members that have clearly benefitted from WTO illegal policies, many European policymakers view retaliation as a frontal assault on European unity--an old-fashioned divide-and-conquer strategy.⁵⁴ Commenting on the U.S. proposal to rotate items under trade sanctions from product to product and country to country, French President Chirac complained bitterly that carousel retaliation is “much closer to 19th Century gunboat diplomacy than to 21st Century diplomacy.”⁵⁵

Whether or how these reactions affect cooperation in other problem areas is difficult to know. Clearly, if trade tensions work to undermine the notion that the U.S. and Europe share common interests or lead to a view that a weaker Europe or a weaker America is in the other's interest, then the consequences could be major. But there is no evidence to suggest that this is happening.

The U.S. and EU to date have been able to compartmentalize trade problems to a remarkable degree. U.S. and European soldiers stood side-by-side in both Bosnia and Kosovo as U.S. trade negotiators went through the long process of imposing retaliatory tariffs in the amount of \$300 million on the EU. More recently in 2002, when trade tensions escalated in response to U.S. imposed steel tariffs, U.S.-EU cooperation in the war on terrorism remain unaffected.

⁵³Daly, Suzanne. “More Vehemently Than Ever, Europe Is Scorning the United States,” *New York Times*, April 9, 2000, p. 1.

⁵⁴Ironically, some observers see trade disputes as an instrument for promoting EU unity. This view is that trade conflict with the U.S. may provide EU policymakers with a convenient “enemy” that can help divert attention from internal problems and disagreements. While this may be true for some disputes where there is a unified EU view, on most trade disputes there are often different views and positions among the member states.

⁵⁵Trade Reports International Group, *Washington Trade Daily*, September 8, 2000.

Leadership Impact

Trade disputes may have discernible impacts on U.S.-EU efforts to provide leadership of the world economy. The growing number of disputes likely absorbs a significant amount of time and energy of key policymakers at the expense of efforts to pursue common interests and objectives, such as the start of a new round of multilateral trade negotiations. Moreover, the two powers need to set an example of cooperation and adherence to WTO rules if the whole system is not to unravel.

The credibility of the WTO depends critically on a prompt, effective, and fair dispute-settlement mechanism. Unfortunately, the EU is seen by U.S. policymakers and interest groups affected by the beef and banana cases as having used every loophole to delay decisions and then refuse to comply with panel decisions. While only 2 WTO disputes out of nearly 200 have ended in withdrawal of concessions (i.e. retaliation) since 1995, non-compliance by a key member arguably weakens the authority of the WTO and serves as a poor model for the rest of the world.⁵⁶ Why should we comply with WTO panel decisions if the EU does not have to, many countries ask. Non-compliance by one of the two leading economic powers is also said to diminish the perceived value of negotiating new trade agreements.⁵⁷

Both the U.S. and EU (bananas in the case of the U.S. and the FSC in the case of the EU) have brought complaints to the WTO that may have been motivated more by a desire to score points with domestic political interests or to rack up negotiating leverage by successfully prosecuting cases than to address serious trade problems. To the extent that a charge of capricious use of the dispute settlement process is valid, the WTO as an institution may also be weakened. Some may argue that no institution can survive for long this kind of treatment by the body's two biggest members.

To deal with the problem of non-compliance, the U.S. and EU have legalistic and diplomatic options. In the area of some of the most bitter U.S.-EU disagreements, particularly over GMO's, the WTO may be asked to make decisions on very complex issues that go deep into the domestic social and the environmental life of each side. Binding rulings in areas that have strong domestic roots can raise sovereignty issues and court a public backlash. Under these circumstances, where the formulations of right and wrong are increasingly blurred, it may be legitimate to question whether WTO panels should be asked to clarify vague rules where there is little U.S.-EU consensus, or whether trade officials should attempt to negotiate diplomatic solutions to disagreements that are so difficult to resolve.

⁵⁶"Transatlantic Trade Tensions," *Financial Times*, May 17, 2000, p. 8.

⁵⁷Schott, Jeffrey. "After Seattle," *The Economist*, August 26, 2000, p. 66.