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Eye on Washington by Nicholas F. Benton

U.S. kicks off trade war against Europe

The Reagan administration capped off 1986 with one of its stupidest moves of the year: launching trade war with our European allies.

Reflecting the disaster of Wall Street crony Don Regan's dominant influence in the White House, the United States announced prohibitive duties on a dozen categories of European agricultural goods. The goods, estimated to total $400 million a year in trade, were selected to hurt almost every nation in the European Community (EC).

The list includes brandy (the single highest-dollar item affected) from France, gin from Great Britain, olives from Greece, inexpensive white wines from West Germany, Italy, and France, cheeses from the Low Countries, France and Denmark, and canned hams from Denmark.

The 200% duty (compared to an average 15% former duty) is designed, according to U.S. Trade Representative Clayton Yeutter, not just to force up prices, but "to stop trade in these commodities dead in their tracks." There can be no conceivable political advantage to this, except to sabotage U.S.-European relations as part of a "decoupling" scenario that will ultimately tear up NATO.

As one observer noted, the European farmer isn't greatly persuaded one way or the other on details of military components of the alliance, but when the U.S. tries to wreck the markets for his agricultural goods, anti-American sentiment in Europe soars.

Nor does the move serve any interest on the U.S. side. While it was ostensibly to retaliate against the loss of $400 million in U.S. grain and corn sorghum exports to Spain when that nation joined the EC in 1986, U.S. farmers are leery, worried the move will only further hurt their export markets as a result of likely EC reprisals.

American consumers will be denied access to a wide array of European products, which will tend to cause the price of their U.S.-made equivalents to rise. But the worst feature is that this move will lead to an all-out trade war with our most important allies, at a time when the future of the Western alliance hangs by a thread due to growing Soviet intimidation, political instability in Europe, and expected deep cuts in the U.S. military budget this year.

Yeutter seemed to take this prospect in full stride when he announced the move at a briefing in Palm Springs while the President was there for New Year's. He conceded that a European counter-move would be matched by the United States again, and that "this could escalate into a major disruption of international trade." At the State Department the next day, spokesman Phyllis Oakley told me, "If the European community takes counteraction, it will be considered unilateral, and we will respond in kind."

Yeutter, during his Palm Springs briefing, contradicted himself and was unable to even roughly estimate the effect of the move on commodity pricing. He first inaccurately stated that the new duty was a 200% increase above the existing duty level, and then corrected himself half an hour later, saying that the 200% duty was relative not to the existing duty, but to the "ad valorem" price of the commodity. While his fumbling performance passed over most of the regular White House press corps, the economics specialists who gathered at the White House to hear the briefing piped in from California broke into guffaws at Yeutter's expense.

Oil producers send danger signals

"Domestic Petroleum Production and National Security" is the title of a report released Dec. 30 by the American Petroleum Institute here, warning of dire national security consequences of the collapsing domestic oil production. API President Charles DiBono blamed administration economic policies for the fact that the United States was more dependent on foreign oil and gas in November 1986 than it was before the oil crisis of 1973-74.

He said that 38% of all domestic consumption was from foreign sources in November, and import of foreign oil and gas rose 23% in 1986, while domestic production spiraled downward from a 2.9% drop in the third quarter to a 3.1% drop in the fourth quarter. He predicted the new tax reform law will escalate the process this year. "Since it prejudices against all capital-intensive industry, it will cost us about $10 billion annually in lost investment," DiBono said.

This means that the assumption upon which Beryl Sprinkel of the President's Council of Economic Advisers based his rosy projected 3.2% growth for 1987 is a chimera. Sprinkel's optimism is based almost solely on the prediction that the new tax law will favorably affect the balance of trade. DiBono's study proves the opposite, including the fact that the net effect of greater U.S. dependency on foreign oil will be a dramatic price rise, increasing the U.S. bill for foreign oil by as much as $20 billion a year.

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