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The High Cost of Clinton's Trade War with the European Union

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President Bill Clinton's willingness to start a transatlantic trade war over bananas is proving to be anything but wise. On March 3, the President imposed duties of 100 percent on $520 million worth of popular European products, such as Waterford crystal and Italian pecorino cheese. The duties are supposed to punish the European Union (EU) for disregarding a 1997 World Trade Organization (WTO) ruling that it change its preferential policy favoring banana exports from countries in Africa, the Caribbean, and the Pacific.

Because of the President's action, hundreds of American and European companies that have nothing to do with bananas now face trade sanctions that will price them out of the U.S. market. The duties will affect a wide range of European products, including cashmere sweaters, greeting cards, coffee makers, chocolates, biscuits, pasta, bath oils, candles, handbags, and ham. The government will start collecting the duties on April 12, the day a WTO dispute settlement panel is expected to rule on U.S. charges that the EU's policy change still does not comply with WTO rules. Meanwhile, because U.S. importers of these products will have to post a bond equivalent to the sanctions, they already may have begun to curtail their imports.

The President's protectionist response not only undermines the authority and principles of the WTO, but also is straining relations with many of the countries involved.

The Banana Battle. More than six years ago, the EU created a complicated quota system for banana imports that favors former European colonies in Africa, the Caribbean, and the Pacific. The United States objected, charging that these quotas discriminated against bananas grown in the Central American "dollar zone" by U.S. multinational companies. In 1997, the WTO sided with the United States and ruled that the EU must change its preferential policy. Instead of complying, the EU made superficial adjustments to its banana regime, in effect mocking the WTO dispute settlement process.

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The EU is resisting the ruling because banana production in Africa, the Caribbean, and the Pacific is not competitive with "dollar zone" production. Moreover, the EU argues that the 1975 Lome Convention entitles it to aid signatory countries in Africa, the Caribbean, and the Pacific—primarily former British and French colonies—for which banana production generates up to 70 percent of total export earnings and up to a third of all jobs. According to the European Commission, however, these countries account for less than a third of the 3.9 million metric tons of bananas annually consumed in Europe; Latin America accounts for over two-thirds.

Damaging U.S. Relations. Sir Leon Brittan, EU Vice President, warned on March 9, 1999, that the banana dispute threatens the Transatlantic Economic Partnership, a joint effort with the United States designed to reduce bilateral trade barriers and improve cooperation in multilateral forums such as the WTO. Ironically, Brittan proposed this partnership.

The Administration's decision also is damaging U.S. relations with Caribbean countries. On March 8, the 15 members of the Caribbean Common Market (Caricom) issued a statement deploring the "unauthorized and illegal action [that] undermines the World Trade Organization and threatens the economic survival, and social and political stability of several Caribbean countries." Caribbean leaders also warned that if banana exports to Europe ceased, the next cash crop would be illegal drugs.

Caricom is threatening to withdraw from the Partnership for Prosperity and Security in the Caribbean signed with the United States in May 1997. Under this agreement, U.S. anti-drug agencies can pursue suspected drug traffickers into the territorial waters and air space of Caricom member states. If Caricom makes good on this threat, the Administration's war on drugs in the Caribbean region would suffer a serious setback.

A Better Trade Policy Response. The United States is right to be frustrated by EU protectionism and legalistic filibustering, but adopting protectionist policies and fighting a transatlantic trade war over $520 million worth of bananas—barely 1.0 percent of total yearly bilateral U.S.-EU trade—is a no-win proposition for all concerned. Instead, the Clinton Administration should:

- **Remove** the unilateral import duties immediately. Countering EU banana protectionism with U.S. protectionism hurts both U.S. and European consumers and poisons U.S.-EU relations so that any compromise is more difficult.
- **Pursue** its claim against the EU through the WTO's dispute settlement process. If the United States, the principal architect of the trading system that led to the WTO's creation in 1995, breaks WTO rules by imposing unilateral trade sanctions against Europe, other countries will be less likely to respect WTO rules.
- **Extend** free trade benefits under the North American Free Trade Agreement (NAFTA) to the Caribbean and Central America. Granting these countries NAFTA trading parity would help to offset any harm they might suffer from a change in EU banana policy.
- **Work** to secure fast-track negotiating authority for the President, which would strengthen the hand of U.S. trade negotiators in upcoming WTO negotiations on agriculture and services in 1999 and 2000.
- **Launch** a new round of WTO multilateral negotiations with Europe covering tariff and non-tariff barriers, agriculture, services, and improvements in dispute resolution.
- **Focus** transatlantic negotiations on duplicative or conflicting product standards, eliminating barriers to trade in services, finding common ground on biotechnology issues, facilitating electronic commerce, negotiating international rules on investment, and cooperating more on intellectual property and competition issues.

Conclusion. The Clinton Administration wants to show congressional critics that it is serious about enforcing the trading rights of U.S. firms in Europe. However, by not waiting for the WTO ruling, the Administration has sacrificed the moral and legal high ground on this conflict and has needlessly angered other WTO members. Moreover, other countries may decide to ignore future WTO decisions in dispute settlements if the EU is successful and if the U.S. enforces the import duties. This would undermine the institutional legitimacy of the WTO and increasingly would tilt a rules-based, open international trading system toward protectionism, causing economic hardship for consumers and workers around the world.

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