

And the Winner Is? U.S., EU Are on Track to Mend Rift (Update1)
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(Adds Zoellick's age in third paragraph, gives date of his Senate testimony in ninth paragraph.)

Brussels, Aug. 9 (Bloomberg) -- Pascal Lamy has clocked a marathon in 3 hours, 20 minutes. Robert Zoellick has run it in 2 hours, 32 minutes. Guess who's ahead in their current billion-dollar trade marathon?

Lamy, the EU trade commissioner, is set to win World Trade Organization consent in mid-August to fine the U.S. at least a record \$1 billion for giving illegal tax breaks to exporters. It's in Lamy's interest to hold his fire, analysts said.

Lamy, 55, and Zoellick, his 49-year-old U.S. counterpart, are focused on avoiding a trade war as the world continues to face the threat of terrorism and turmoil on global markets. That means Lamy will probably refrain from lashing out.

''It's not about which side has the bigger stick,'' said Richard Weiner, head of Hogan & Hartson's trade-law practice in Brussels. ''It's about making sure that the broad relationship continues. That requires compromise and for both sides to recognize the constraints that domestic politics place on the other.''

Lamy's strategy in the trade talks will set the stage for future action by the Bush administration in response, for example, to requests for protection from U.S. lumber and textile producers. EU-U.S. trade in goods, services and income totaled \$835.9 billion in 2000 and fell to \$769.2 billion in 2001, the U.S. Commerce Department said.

In the late 1990s, a boom in EU trade with the U.S. was accompanied by an increase in disputes ranging from bananas to export tax breaks, culminating in a stalemate that broke up World Trade Organization talks in Seattle just weeks into Lamy's tenure in 1999.

The global economic slowdown has spurred governments to seek protectionist barriers, intensifying conflicts between the U.S. and the EU such as the dispute about President George W. Bush's decision in March to impose steel tariffs on foreign producers.

'Nuclear Bomb'

Zoellick last year said retaliation over tax breaks would drop a ''nuclear bomb'' on EU-U.S. trade relations. The WTO has ruled that a U.S. tax break for exporters such as Caterpillar Inc., Motorola Inc. and General Electric Co. violates trade rules. The EU has asked to be allowed to impose as much as \$4.04 billion in tariffs.

The U.S. trade representative, in testimony July 30 before the Senate Finance Committee, told lawmakers they must act soon on reforms to corporate tax laws or face retaliation by the EU. Zoellick said Lamy may be willing to hold off only if the U.S. shows ''substantial progress'' and makes a commitment to resolving

this issue next year.

Style Change

Lamy's pragmatic approach to trade talks differs from that of his immediate predecessor Sir Leon Brittan, who had a publicly abrasive relationship with then U.S. Trade Representative Charlene Barshefsky.

''It is useless and counterproductive to fire off verbal assaults which only wound the adversary and harden his position,'' Lamy wrote of relations between the U.S. and the EU in ''Europe on the Front Line,'' a book published in April. ''I prefer the telephone to the megaphone.''

Last month, the EU trade commissioner delayed a decision on retaliation over U.S. steel tariffs. Lamy's move defused tensions as Zoellick was seeking to persuade Congress last week to approve fast-track trade legislation that gives Bush more leeway to negotiate trade accords.

''Lamy recognizes the need to prod and step back.'' said Rachel Thompson, a trade specialist at public-affairs group Apco Worldwide in London.

Delaying the steel decision, analysts said, also helped Lamy shore up support among EU member states, in particular, Germany, the U.K. and Sweden, which have voiced doubt about the legality of punishing the U.S. before a WTO ruling expected next year.

'Herding Cats'

Barshefsky, who jousting with Lamy at previous trade talks, said his job was harder than hers because it involves dealing with 15 countries. ''It's like herding cats. And Lamy is an exceptional cat herder,'' she said in an interview.

EU lobby groups aren't always happy with Lamy's tactics. The U.K.'s Iron and Steel Trades Confederation, which represents steel workers at companies such as Corus Group Plc, Europe's second-largest steelmaker, urged Lamy to impose penalties on the U.S. last month, spokesman Ken Penton said.

''We were disappointed that he decided to wait for a further period, but in retrospect we can see that he didn't wish to have the EU lose the clear economic and moral high ground,'' Penton said. ''Sometimes it would appear on trade matters that America only really listens to the arguments of force.''

Tactics on Taxes

Analysts said Lamy's decision on tax breaks is likely to follow the same course as that on U.S. steel tariffs, where a decision on retaliation has been postponed to September to give the U.S. time to consider easing its stance by offering more exemptions. The U.S. has already excluded products worth \$300 million from a total \$2.3 billion affected.

To back up his threats, Lamy has prepared sanctions of \$350 million now and \$600 million later on fruit juice, textiles and steel produced in U.S. states that play key roles in domestic politics. He also curbed steel imports diverted from the U.S. and

marshaled the support of other steel importers including Japan, South Korea, China and Switzerland for a WTO case that will be ruled on next year.

''He's a very clever fixer,'' said Jim Rollo, a professor of European economic integration at the U.K.'s Sussex European Institute. ''What's not clear is whether he's got the ability to handle the big politics. The question mark is what happens next time.''

Touted as a possible French prime minister until the defeat of socialist presidential candidate Lionel Jospin in May, the one time Lamy stood for election -- to the French parliament a decade ago -- he was defeated.

T-Shirts and Sneakers

Lamy and Zoellick have been on first-name terms since the 1980s, when Lamy was chief of staff for Jacques Delors, then president of the European Commission, and the U.S. representative worked for Secretary of State James Baker.

The two men have donned T-shirts and sneakers to jog and work out trade tensions. Lamy has said he admires Zoellick as an intellectual and ''an ascetic, like me.''

''Much turns on this relationship,'' said Konstantinos Adamantopolous, a Brussels-based trade lawyer at Hammond Suddards Edge. ''These guys talk on the phone and have a drink together. They get together to try to defuse things.''

After joining Credit Lyonnais SA in 1994, Lamy later became director-general, or No. 2, overseeing the privatization of the French bank after it lost \$20 billion in a series of scandals. He was named to head the trade department of the EU Commission in September 1999. His appointment was seen by some as damping potential opposition from France, traditionally hostile to unfettered globalization.

''I was doubtful whether any French commissioner, granted the legacy and the ideology of that country, would continue on the same path of supporting open trade and liberalization that I followed,'' former EU Trade Commissioner Brittan said in an interview. Yet, ''I can't think of anything he has done that I would have done differently.''

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