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Old friends struggle to overcome rough start on trade

Robert Zoellick and Pascal Lamy have solved one bitter US-EU dispute, but many differences remain. **Edward Alden** and **Guy de Jonquières** report



Transatlantic
discord

While the US and the European Union grapple with growing differences on a range of issues, two men have been doing their best to hold the relationship together.

Robert Zoellick, US trade representative, and Pascal Lamy, EU trade commissioner, are old friends from their days as G7 summit "sherpas" a decade ago.

That friendship paid dividends this month, when all-night telephone negotiations between the two produced agreement in principle to end a bitter, eight-year battle over European restrictions on banana imports.

The deal was particularly timely because it came amid European anger at President George W. Bush's rejection of the Kyoto protocol on global warming. It was achieved after both sides finally abandoned an increasingly futile debate over principles and simply split the difference between competing interests. Whether such pragmatism can be sustained and extended to other areas will largely determine whether

the US and EU can get past a rough start to relations under the Bush administration. Mr Zoellick said the banana deal "demonstrates that [we] can resolve some tough problems, and it creates a better environment for dealing with other issues."

Personal chemistry matters in trade policy even more than in other areas of transatlantic relations. Trade is the only important field of foreign policy where the EU acts as one, and the extensive powers of Mr Lamy's office mean that much of Brussels' regular dialogue with Washington is channelled through him.

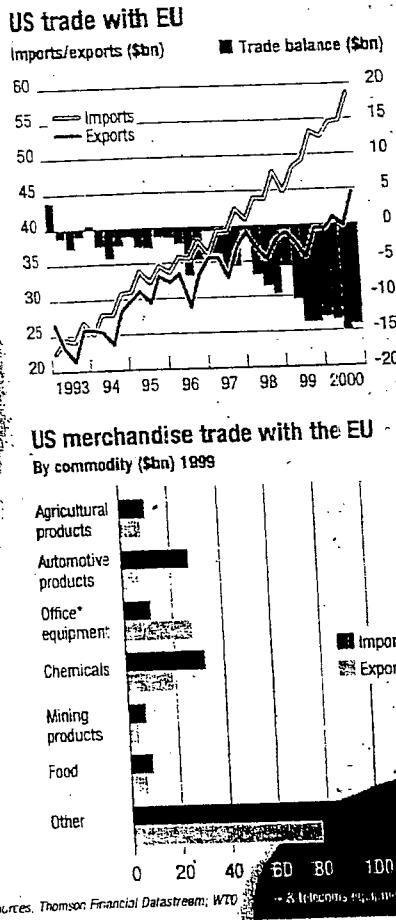
His good working relationship with Mr Zoellick contrasts with the bitter squabbling between their two predecessors, Sir Leon Brittan and Charlene Barshefsky, which helped sharply increase transatlantic trade frictions since the mid-1990s.

However, it will take more than friendship to transform US-EU hostility into trade co-operation. Since the 1993 Uruguay Round agreement, the two sides have increasingly found themselves at odds over issues including industrial subsidies, regulation, food safety and privacy.

Even taxation - usually considered the core of domestic sovereignty - has



Pascal Lamy,
EU trade commissioner



Sources: Thomson Financial Datastream, WTO



Robert Zoellick,
US trade representative

been a source of conflict. The World Trade Organisation has upheld an EU complaint that the US Foreign Sales Corporation (FSC) law, which gives US companies a rebate on taxes on foreign income, is an illegal export subsidy.

The US has amended the law, but if the WTO next month again finds in Brussels' favour, the EU could be authorised to impose up to \$4bn in sanctions on US exports. Washington has warned that if the dispute escalates, it may challenge some European tax systems in the WTO.

The two sides also face a new generation of conflicts that spring not from their efforts to protect favoured producers, but from more fundamental cultural and institutional differences.

Their dispute over the EU's 12-year ban on hormone-treated beef, for instance, has been greatly complicated by consumer panic in Europe about "mad cow" and foot-and-mouth disease, which has thrown

its governments on the defensive about all food safety matters.

Meanwhile, the potential revival of transatlantic disagreement about data protection rules reflects wide philosophical and legal differences about the role of the state in safeguarding personal privacy.

Growing competition to negotiate preferential trade deals with developing countries has also widened transatlantic differences. Mr Bush has thrown his weight behind plans for a Free Trade Agreement of the Americas (FTAA). The EU has encroached on the US backyard by concluding a deal with Mexico and starting negotiations with the Mercosur trade bloc, while both big powers are holding talks with Chile.

Dan Tarullo, a former Clinton White House official, said these efforts "are part of an emerging European challenge to US leadership in numerous areas, including trade." The type of US-EU

co-operation that produced the last three rounds of world trade negotiations is likely a thing of the past, he said. "It is more realistic to prepare ourselves for an extended period of friction with Europe as we redefine our relationship in the post-cold war era."

For the EU, the real test of efforts to forge a new transatlantic partnership will be whether it can persuade Washington to work closely with it to launch a world trade round at the WTO's ministerial meeting in Qatar in November.

Mr Zoellick has said he favours a new round, which could not go ahead without active US participation. But there is still great uncertainty among White House officials over whether the EU is ready to liberalise its farm policy enough to make a round worthwhile. Mr Bush still lacks the congressional authority to conclude new trade deals of any kind.

If Mr Bush's quest for negotiating authority faces a long delay - or worse, ends

in failure - the US may have little option but to pursue bilateral trade deals. That could lead to EU accusations that, in trade as well as other fields, the US is rejecting multilateralism. Renewed tensions could then be hard to avoid, and trade could join climate change, missile defence and anti-trust policies on a worsening list of conflicts between the US and Europe. But US officials say they are optimistic the transatlantic relationship is strong enough to avoid such deterioration.

"It's not to say there aren't huge issues out there to be dealt with," said Alan Larson, US undersecretary of state for economic and business affairs. "But part of the way to work through them is to make sure there is a sense that we're anchored in a relationship that's bigger than any one issue."

This is the last of in a four-part series on tensions in the US-EU relationship. Previous articles can be seen on www.ft.com/us-eu