

Bruxelles le 23 mai 1985

speech file

2
441.2(103)

EMBARGO : 20 H 00

"EC/US : JOINT RESPONSIBILITY FOR THE
OPEN TRADE SYSTEM"

Willy DE CLERCQ, Member of the Commission of the
European Communities,
with special responsibility for
External Relations and
Commercial Policy

American Chamber of Commerce
Brussels, 23 May 1985

EC/US : JOINT RESPONSIBILITY FOR THE OPEN TRADE SYSTEM

23 May 1985

I am grateful for your invitation to address you on the occasion of your annual dinner. The subject of my talk - "EC/US: Joint responsibility for the open trade system" is a serious one and one which concerns this Chamber very directly. Indeed, I am pleased to note that the Chamber recently issued its own very thoughtful and stimulating discussion document on EC/US trade relations which touches on some of the underlying issues. I appreciate its very positive tone and I welcome its reaffirmation of the value of US participation in the GATT. In fact, this aspect of your discussion document gives me the cue for my own observations this evening.

The emphasis I want to make is that the EC and US need the GATT open trade system, and that system, if it is to survive alive and well into the 21st century, needs us.

GATT IS THE BASIS FOR THE OPEN TRADE SYSTEM

But let me begin by defining my terms a little further. I am taking the words "open trade system" to mean the open multilateral trading system based on GATT. That is a system based on fairness, openness of markets and procedures, multilateral cooperation, non discrimination. It is based on the concept of global reciprocity - a very different thing from the narrow and distorted notion of sectoral reciprocity, which continues to enjoy some

misguided support. In fact, the natural enemies of the GATT-based open trade system are protectionism of course, but also bilateralism and sectoral reciprocity. What I mean by sectoral reciprocity is trying to solve problems, bilaterally, on a narrow, product by product basis, by the threat of erecting new and discriminatory barriers to trade. This derives more from the corrosive philosophy of an eye for an eye, a tooth for a tooth. That philosophy destroys rather than develops international cooperation.

It is worth recalling the objectives which the GATT system is designed to promote. The preamble to the General Agreement refers to :

- raising standards of living
- ensuring full employment
- the growth of real income and effective demand
- developing the full use of the resources of the world
- expanding the production and exchange of goods

But, laudable as they are, these objectives are not all. Much more is at stake. Economic and political stability are very closely related. A sound open trade system is an essential component in greater economic stability, which in turn contributes to greater political stability. It is a public good. The sheer extent and weight of our share in that system are such that we must accept and meet our joint responsibility for keeping it in good order.

GATT IS NOT PERFECT - BUT IT WORKS

In saying this, I am well aware of the current mood in certain quarters of disillusion with the GATT trading system. But we need to be objective in looking at the real problems.

In one sense the system is overburdened. I think that we sometimes have a tendency to look to the GATT for solutions which it was never intended to provide.

It was not intended to provide the theatre for a display of what one observer has recently called the "gunboat economics" of US foreign economic policy. It was never, for example, intended to cope with a world of fluctuating exchange rates and a logic-defying international monetary system.

Its vocation is the removal of trade barriers and we cannot expect it to solve all our economic problems.

Keeping this in mind, the GATT trading system works better than many of its detractors would claim. When I had the honour to address the World Affairs Council in Washington earlier this year I referred to the "Gatto-pessimists" whose apocalyptic vision leads them to present the open international trading order as being engulfed by a tidal wave of protectionism. Of course there have been setbacks, even entire sectors of economic activity have unfortunately joined the "GATT dodgers" and have evaded GATT discipline. But, in the nearly forty years of GATT it has been true, year in year out, that world trade has gone up faster than world production. And last year saw world production increase in volume by 5% while world exports leaped ahead by 9% in volume terms.

If one believes in a world trade system based on fairness and one which enjoins us to make the most efficient use of the earth's scarce resources, there frankly is no rational alternative to GATT, based on international consensus. I do not believe it is realistic to envisage an international trade law enforcement agency, with the GATT Secretariat in Geneva in the role of police force. Nor do I believe that many of us in this room would welcome more managed trade - or, to call it by its real name "cartelisation" with all the arbitrariness and greater political involvement which that can bring.

EUROPE AND US NEED GATT

We in Europe have a long history of involvement in international trade. Member States rely on their exports to Community and third country trading partners for something like a mean of 25% - taking an average of imports and exports - of gross domestic product (GDP).

Our common commercial policy reflects our need to maintain this vital window on the world. We have "bound" in GATT well over 90% of our common customs tariff; quantitative restrictions occupy only a very small place in the Community's trade policy - and even that is dwindling. Our tariffs are among the very lowest in the world. An open economy such as ours requires an open trade system in which to thrive.

The same is true of the United States; you too have an open economy. You too need the GATT. But there is one big difference in our two situations. While European involvement to international trade has always been considerable, the same has not been true of the United States. I hesitate to call you newcomers to international trade. But, what is undeniable is that US dependence on international trade for continued economic wellbeing has been dramatically increasing.

5.

The US can no longer go it alone. Some observers have calculated that in 1984 12.5% of America's GNP could be related to exports of goods and services, compared with the traditional 4% or 5% we were used to a couple of decades ago. 40% of your farmland is devoted to exports, no less than the two thirds of your wheat is exported. Your manufacturing sector depends on foreign markets for some 16% of total sales. In fact, over the period from 1950 to 1982, total US exports have increased by a factor of five compared with the smaller, threefold increase in production.

I believe that it is the process of coming to terms with the economic and commercial interdependence of the United States that accounts for the higher profile which is now given to trade policy in Washington. But it is worth stopping to ask how growth in US external trade has been possible. I have just looked at development of the trade/production ratio over the period 1950-1982. That period is pretty well the life of the GATT system. One could say that the United States and GATT have grown up together. Is it just coincidence? I believe not. It is my thesis that the United States has prospered in international trade thanks to the GATT system.

The fact is that the GATT has served us well, both the US and the EC, and continues to do so.

"THE TILTED PLAYING FIELD"

But let me sound just one note of warning. For the world trade system to remain open, it must remain truly multi-lateral. It is not and never was intended to reflect the interests and priorities of any one contracting party, or even any given group of contracting parties. It must not be used as a forum for pursuing an essentially nationalistic foreign economic policy. And it must not be denounced as being tilted against any one contracting party because it does not provide the means for implementation of any such narrowly defined policy objectives.

In fact, I believe that the view - which is apparently gaining ground in the US - of the present world trading system as a playing field tilted against the United States is an unhelpful distortion of reality. It has served the United States well and there is still a clear identity of objective between US policy and the underlying principles of the GATT.

May I submit that it is not the playing field which is tilted against the United States but US policymaking itself? Earlier this year USTR Bill Brock noted in an address to Congress that :

"...neither US trade policy nor the trade policy of foreign governments is responsible for the large US trade deficit." and

"...the high value of the dollar is principally responsible for the US trade deficit."

And only last Friday, speaking in Seattle, Paul Volcker, Chairman of the Federal Reserve Board made a very similar point :

"The Governments of the world will have to give more attention to the requirement for greater (monetary) stability lest fluctuations in exchange rates undermine the very goals of the liberal trading order we want to support".

International trade can't carry the can for monetary disorder. We are living in a world where exchange rates are no longer determined by relative prices in different countries. The value of world trade in 1982 is calculated by GATT at about 2 trillion dollars but international capital transfers are between 10 and 15 times greater ! Capital movements determine the exchange rates which have their effects on the trading system. The trade tail is wagged by the monetary dog.

EC AND US HAVE A JOINT RESPONSIBILITY

Thus, we must not yield to the temptation to accuse the trade system for problems not of its making. We need the GATT system and we have a duty to uphold it, it is in our interests to do so.

The European Community and the United States are the major actors on the world trading stage. We are under the spotlight. Between us, we account for something like 35% of world trade. By definition we have a major joint responsibility for preservation of the open trading system. Intemperate action and reaction by one or the other could very quickly, domino-like, lead to a collapse of the whole system.

Secretary Shultz again put it elegantly in his Princeton address:

"For developed and developing countries alike, economic growth clearly depends also on the continued openness of the world trading system, and indeed on a further liberalization of world trade. This is a collective international responsibility."

This is precisely my thesis. I am grateful that Secretary Shultz should have taken the care to state it so clearly !

THE "NEW ROUND"

Quite naturally, you will be thinking that if I am really serious in arguing the need to strengthen our present open trading system, then what better way of achieving it than by a successful new round of multilateral trade negotiations.

Let me repeat ; the Community is in favour of a new trade round, and agrees that the GATT is the right forum. I have already described how big a stake we have in international trade and therefore the proper functioning of the trading system. But the Community believes that under the present circumstances we cannot afford a failure and therefore, before embarking on such negotiations we must do everything we can to ensure that they will be a success - all the more so if the new round becomes, as we proposed, the "Brussels Round".

That means full preparation and consultation with our partners. My senior officials have in recent weeks been despatched literally to the four corners of the globe in an attempt to win over some of our developing country partners. And within the Commission we are working very hard to prepare for the meeting in GATT of senior officials which we are committed to hold before the end of the Summer.

As part of the preparatory process we have referred to the need to address, in parallel, other aspects of the international economic system such as world monetary and finance problems. These are not delaying tactics. The Community is anxious that the underlying economic and monetary fabric of the trading system should not again

undo some of the stability and prosperity which the GATT based trade system has unquestionably engendered. I think our anxieties are beginning to be more widely shared by businessmen as well as members of the US Congress and Administration.

STANDSTILL

There is another aspect of the Council of Minister's declaration on the new round which is important for setting the scene for the new negotiations. I refer to the need for a standstill on new protectionist measures. The Community has respected its international standstill obligations and we expect our partners to follow suit. In fact, in a small but significant way, we have gone even further by rolling back some old quota restrictions which had been around for several years.

Why does the Community attach so much importance to standstill ? Firstly, because to call for a new round in GATT and then with a shrug of the shoulders adopt or seriously consider adoption of a string of protectionist devices ranging from damaging labelling requirements, through "reciprocity" legislation, to an import surcharge, would undermine the credibility of the whole exercise.

On the surcharge, I am grateful for the statesmanship which the Administration has shown in resisting the temptation to consider it as a serious policy option.

But I remain personally seriously concerned about the growing number of our bilateral differences, and more significantly the openly aggressive manner by which the United States seeks to resolve them. As stated very recently by the American Chambers of Commerce in Europe "it looks as if the ocean between us is every year getting deeper and wider".

On steel, our request that the pipes destined to a major pipeline construction project be exempted from the EC/US arrangement on tube exports to the US has met with increasing intransigence. And that despite the fact that the US contractors could not find, at the time they were looking for sources of supply, any US suppliers able to meet their order. The EC/US arrangement expressly provides in situations of this kind for restrictions to be lifted.

On the question of our tariff preferences on citrus which we grant to our Mediterranean partners, the US position seems to overlook the essential political realities. Our Mediterranean partners who benefit are developing countries and our preferential arrangements are part of a wider framework designed to assist them in the development process, and contribute thereby to political stability in such a strategically sensitive part of the world. Surely, these are objectives which the United States shares. Does the alleged trade effect on California and Florida interests justify such intransigence and even the much publicised threat of retaliation against the Community? And what would be the basis for any such unilateral retaliation in international law?

All this arises because the Community has done what the United States itself has just done through the Caribbean Basin Initiative. Is there no parallel between your initiative in the Caribbean Basin, and ours in the Mediterranean Basin? I hope that with time and goodwill on both sides we can put the problem into its true and wider perspective.

And most recently, the US has announced a new export incentive scheme in the agricultural sector, the Export Enhancement Programme, which would be, and I quote, "targeted to markets identified as those taken over by competing nations with the use of unfair trade practices". We regret the way in which the new scheme has been presented as being targeted against the Community. We are looking at it very carefully to see whether it is in compliance with the international obligations of the US. But already I can say that we reject any implication of our having used unfair trade practices. Our exports refunds

are consistent with GATT rules. Is it an example of that eye for an eye philosophy I referred to earlier ? If so, I do not think that it is conducive to promoting the spirit of dialogue which we need if we are to promote an improvement in the GATT system.

* * *

In conclusion, the Community and the United States need to contain protectionism, we need conciliation, not confrontation; we need dialogue, not dispute. As I said at the outset, there is much more at stake here than trade. The part we play in the functioning of the open trade system, and more generally in a stable and peaceful world, places special responsibilities on our shoulders. It makes it a compelling duty for us to find ways to manage and resolve peacefully the unavoidable differences which arise between us. If we were to let these disputes degenerate, it would be a tragic failure to live up to our responsibilities. The consequences for all of us and for our partners would be out of all proportion with what is at stake in the various bilateral issues between us. We, for our part, remain ready to discuss as reasonable men, and in a spirit of cooperation, the differences we have with the US. I appeal to the US Administration not to yield to the pressures for protectionist and unilateralist action generated by the increasing trade deficit. I appeal to my US colleagues to reflect on the permanent damage which, if we cannot find ways of containing our differences, we would inflict on ourselves as well as on the open trade system on which so much of the prosperity of the Western world continues to depend.

For my part, I remain confident in my belief that our two societies, with their shared values of freedom, respect for the individual and dialogue, have far more to unite, than to divide them. Against this background, I have no doubt that we are both able and willing to overcome problems, and that dialogue and cooperation will prevail.
