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Address by

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Commission of the European Communities

at the

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It is a great honour for me to be asked to speak at this World Trade Conference. And it is always a pleasure to visit this glittering city on the edge of the Pacific. Today it is a double pleasure for the Commission of the European Communities will shortly be setting up in San Francisco a West Coast Office. But for a European a visit here is also a challenge. Because no European can live in the United States without realizing that over the last twenty years there has been a great shift in terms of money and power from the Northeastern triangle to the West and the South. And this must raise with all of you the question of the relationship with Europe. A Texan banker once told me that Europe was an obsession of the East coast establishment. There is much talk - understandably so - of the Pacific Rim. So where exactly is Europe and does it matter when you get there? Let me give you some hardheaded reasons why the relationship with Europe still matters.

First, the sheer size of transatlantic trade. In 1987, the twelve-member European Community emerged as the largest export market of the United States - and as a customs union with a single external tariff and no tariffs between our Member States, we are entitled to regard ourselves as one market. That year, US exports to the Community totalled $60.6 billion, compared with $59.8 billion to Canada and $28.2 billion to Japan. Total US trade (exports and imports) with the Community was $145 billion. And all this

over low tariffs and with very few import restrictions. As George Shultz said in Brussels several years back, we must be doing something right.

The second reason goes wider. The Community accounts for something like one fifth of world trade, the United States for about fifteen percent. Together we account for more than one third of world trade. This places very heavy responsibilities on us both. For if any mutual escalation of trade restrictions were to break out, if the shutters were to come clanging down on both sides of the Atlantic, the one world trading system which has over the last forty years underpinned the biggest rise in prosperity in the recorded history of the world would be bust, and we would be back sooner than many of you could believe not only to the poverty and the misery of the 1930s, but to some of the terrible political ghosts which haunt every journey through an economic wasteland.

The third reason goes even wider. Europe and the United States, whatever arguments we may have from time to time, share common democratic values. No European should forget the Marshall Plan, the Berlin airlift, the founding of the North Atlantic Treaty Organization in the common defense of freedom, and the generous and statesmanlike support which the United States gave to the beginning of European unification in the 1950s. These common values are not put

at risk by trade disputes, but the solidarity of the Western Alliance would inevitably be shaken by an all-out trade war.

All this is not to say that the international economic environment depends only on the transatlantic relationship. Quite apart from the problems that you have with Japan and some industrializing countries in East Asia, there are some formidable general questions. Can the debt crisis of the developing countries be maintained by prudence and wisdom from both borrowers and lenders? Can exchange rate instability be contained before it puts an intolerable strain on the one world trading system? But a lot depends on the arguments which the European Community and the United States are having. Let me set out these areas of dissent.

Let me begin with one area where there is little or no dissent. That is the US/Canada Free Trade Agreement negotiated but yet to be approved in the United States and Canada. Do the Europeans object? The answer is "No". Some of you might be surprised at this answer. The Agreement will mean that Americans and Canadians will buy more of each others' goods when they might have bought European goods. But the international trading rules on this question are quite clear. If a free trade arrangement between two or more countries can pass two simple tests, it is fully permissible. The first test is that it covers a substantial part of all the trade. The second is that it creates no new

obstacles to trade with third countries. Countries concluding a free trade arrangement which passes these tests do not owe compensation to third parties for any trade diversion which might occur. This is because the founders of the General Agreement on Tariffs and Trade believed with the late Professor Viner that freeing trade completely between two or more states leads to more trade creation than trade diversion. As President Kennedy used to say, "a rising tide lifts all boats".

We shall have some points of detail to discuss on this extensive and complex agreement. But let us hope that then it can go through. Over all, it should be good for the United States, good for Canada and good for all their trading partners.

Now, what are the areas where we do not agree?

The first is agriculture. This is a subject festooned with myths. The first myth is that the European Community is subsidizing its farmers like crazy. The fact is that in 1986, the European Community spent $23 billion on eleven million farmers. The Federal Government here spent $26 billion on two million farmers. This does not mean that we are right and you are wrong. It simply means that we are both sinners in the eyes of the Lord.

The second myth is that by the Common Agricultural Policy, the European Community is slamming the door on American farm exports. The fact is that we are the American farmers' biggest customer, taking year-in year-out no less than one fourth of American farm exports (nearly 7 billion last year). This is much more than was sold to Canada, Mexico, South Korea and the whole of North Africa combined.

The third myth is that we, with our subsidies to farmers, are taking the bread out of the mouths of American farmers in third markets. Now, the international trading rules here are quite clear. Agricultural subsidies are recognized as a fact of life. Adam Smith would have disapproved, but he would have done poorly in the primaries on both sides of the Atlantic. What the rules provide is that subsidies should not be used to get more than an equitable share of world trade. In other words, no-one should use subsidies to get a rapidly-increasing share of the world market.

The European Community and the United States only compete essentially over about one fourth of American farm exports - essentially wheat and dairy products. How have these fared? The high water mark of American wheat exports was 1981 - 49 percent of the world market; five years later that was down to 35 percent. Was this the fault of the wicked Europeans? Hardly. Because our share of the world's market over that period fluctuated only between 12 and 14 percent - and that

with stockpiling which, as you know, costs. In the case of dairy products, for years the United States exported very little. Its share of the world market has now grown to over 10 percent - at the Community's expense.

These facts deserve to be put on record. But I would like to say that I hope we can now move beyond a confrontation.

In the OECD last year, there was general agreement that the basic cause of problems in world agricultural trade was excessive subsidization, leading to excessive production poured remorselessly on a saturated world market. So, in the new round of multilateral trade negotiations (launched in the Fall of 1986) we have got to get to grips with this problem of reducing subsidies. The United States has proposed the complete abolition of agricultural subsidies over a period of ten to twelve years. Frankly, we do not think this realistic. I would not be surprised if some in the United States were to join us in this view. What we are suggesting is a substantial yet internationally-balanced reduction in agricultural subsidies. And we can say that we have made a start - a major and painful start. We have so squeezed our dairy farmers over the last three years that milk production would be twenty-five percent higher this year if these measures had not been brought into effect. By 1989, five million cows will have been slaughtered - equivalent to half the USA's dairy herd. Our butter stocks

- 1.3 million tonnes in 1986 - will be considerably below 300,000 tonnes at the end of 1988. And all this at a time when other producers in North America, Australia and New Zealand are continuing to boost output. Support for cereals production has been cut with the result that prices dropped in real terms by 25 percent between 1984 and 1987. Similar cuts have been made in all other major product areas (sugar, oilseeds and wine, for example). And in February, our Heads of Government agreed to a draconian restriction in future agricultural expenditure - no increases exceeding rather less than two percent per year over the next four years, this to be automatically enforced by sharp cuts in support if far from generous production limits are exceeded.

So, we feel - and our farmers feel - that we have already gone quite some way down the road to reducing agricultural subsidies. Indeed, our farmers are asking what equivalent action the United States is taking. It is all very well marching along with a vision of what the world might be like in twelve years time. But with your head in the stars, you risk falling into some potholes on the way. We think we need some emergency international action on the products in most disarray and a substantial, politically realistic and balanced reduction in subsidies. Let us hope that reason will prevail and that we can get a settlement on these lines in the new round of trade negotiations now under way..

Second, the industrial sector. Here, the argument is mainly about airbus. Are the Europeans again subsidizing the production of airbus like crazy and taking the bread out of the mouths of Boeing and McDonnell-Douglas? Here again one needs to turn to the international trading rules, to which the United States is a full party. The Agreement on Trade in Civil Aircraft- signed in 1979 does not prohibit subsidies, it recognizes their existence. But if anyone can show that subsidies elsewhere are harming them, they can take their case to the GATT and ask for compensation. But the steadily increasing sales of Boeing and McDonnell-Douglas make a convincing case on these lines a little difficult to sustain. Moreover, Airbus are clear that they will be able to repay during the next decade in full measure the money they have borrowed from four of our Member State Governments. They maintain this on the basis of some 450 orders for the A-320 and one hundred or so orders - still coming in - for the A-340. Do not underestimate a very strong feeling in Europe about European access to the world civil aircraft market. Europeans can build planes. Some of you here might remember the Spitfire, the Lancaster bomber and the Messerschmidt 109. If we can build planes which can sell and which are economically viable we think we have a reasonable right to part - and only part - of the huge world market for civil aircraft in the 1990s. But we do not want any more than you do to pour taxpayers' money down the rathole. Some discipline on

Government support is reasonable. On this basis, I hope we shall be able to reach agreement over the coming months.

And then there is the trade bill. The trade bill in the form in which it went to the President and which faces a likely veto is certainly less objectionable than the original version. The so-called Gephardt Amendment (which called for automatic penalties for countries with more than a certain level of balance of payments surplus with the United States) and the Bryant Amendment (which would have hindered foreign investment in the United States) have gone. But the bill which went to the President still has features which cause us concern: measures on extraterritoriality, measures which encourage drop-of-the-hat action on foreign unfair trading practices. "Why not?" you might ask. The answer is that there are no saints and sinners in international trade. We are all sinners in the eyes of the Lord.

Every year the Trade Representative's office in Washington produces a list - which they have every right to do - of foreign trading practices to which they object. In a spirit of friendly reciprocity, we also produce a list every year of what we call "US Practices which impede trade". I will gladly send a copy to anyone who asks of this 26-page list. The way to deal with these practices - which we all have and to which others object - is to sit down as we have done over

the last forty years and to negotiatiate their abandonment multilaterally and reciprocally and not with a gun pointing at the other fellow's head.

What will happen now with the trade bill? No-one can tell. But while we recognize the situation has improved, we still have our concerns. Whatever happens, we shall not hesitate to defend our rights in the GATT.

Then, finally, macroeconomic issues. The feeling is often voiced here that the Europeans are not growing fast enough, that if they did, the American balance of trade problem would be solved. This is hogwash. Marty Feldstein, a former Chairman of the Council of Economic Advisors, recently calculated that if European and Japanese growth rates were doubled, this might mean a reduction of some $10 billion in an American balance of payments deficit of close to $150 billion.

Secondly, are the Europeans stumblebums in the growth league? The facts hardly bear this out. From 1970 through 1980, average annual growth in terms of GNP was 2.7 percent in the US and 3 percent for the European Community. True that in 1984 there was a spectacular rise in US growth. But this followed a deeper recession than European had had and would not continue. In 1986, European Community growth was 2.6 percent, while the US economy expanded by 2.9 percent.

In 1987, the figures were: EC 2.4 percent, US 2.9 percent. In 1988, we reckon that we shall both expand at about the same rate - around two percent.

So, our track record is not so different. But this does not mean that we in the Community do not want to grow faster. We have a major unemployment problem, 13 million people - 11.5 percent of our working populations. So we need to grow. How? We have not yet got a common economic policy. The Federal German Government - often mentioned in this context - considers for its part that it has made - and promised - the most in the way of tax reductions, which it can prudently envisage. It does not believe in the "quick fix" like 1978, which led to a headache the following year in terms of inflation. We believe in steady and sustained growth. And here we think our major contribution is what we call "Operation 1992 - the creation of a truly single market in Europe".

Tariffs between Member States have already been abolished. But other barriers remain: frontier formalities - lines of trucks at each Member State frontier with drivers waiting for hours to get documents stamped; different technical standards and government purchasing requirements which are often protectionist; frontier controls necessary because rates of sales tax vary very widely between Member States. The Commission's Action Programme put forward to the Council

in 1985 specified 300 measures - with a name tag and timetable attached to each, which would be necessary to sweep away these barriers. The aim is to achieve by 1992 a single market of 320 million people in which businessmen - whether they are American or European - can trade and invest as easily as they can in the United States.

This freeing of a huge internal market should mean a tougher, more competitive but also a much more prosperous Europe. A recent detailed study which we commissioned in Brussels shows that the Community's Gross Domestic Product could be increased by some five percent - that is, $260 billion; unemployment could be reduced by two million jobs - indeed, by five million if promoted by appropriate economic policies.

What will this mean for the United States? Would a United Europe mean a Fortress Europe? No. The EC accounts for some twenty percent of world trade - compared with about 15 percent in the case of the United States, and, with ten percent of its GNP dependent on its exports to third countries, it has even more interest than any of its trading partners in maintaining the one world trading system created over 40 years ago under the aegis of the General Agreement on Tariffs and Trade. To imagine, therefore, that freeing trade in, say, toys or thermometers would be accompanied by increased tariffs against the outside world would be absurd.

Equally clearly, when there is a question of say, new areas of government purchasing or services - not so far covered by the GATT. Opening up our market depends on what can be regulated multilaterally in the GATT. We are confident that on this basis, a mutually satisfactory solution can be found.

We remain firm in the belief that a major increase in the prosperity of Europe will mean that the EC will be an even bigger market for American exports and American investment. Our progress towards 1992 will be for us an event comparable with the opening of the American West. It means an exciting future for Europe and its trading partners. Let us enter it in partnership and friendship with our biggest trading partner - what Churchill once called "The Great Republic - The United States of America".