SPEECH TO THE CONFERENCE BOARD [MAY 11TH, 1978] BY

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1) If there is one field in which history has an unfortunate habit of repeating itself it is in that of international trade. In times of plenty, when growth is assured and prosperity seems certain, we are all free traders. Competition in the international marketplace is seen as natural, healthy, and beneficial. But as soon as things start to go wrong, as soon as we are faced with a recession, there is a tendency to no longer wish to practice what we were preaching before. Demands by both labor and business for protection against foreign competition, be it fair or unfair, become increasingly insistent, if not obsessive. Import competition is then often claimed by many not only to be injurious but also to be unfair. If domestic manufacturers cannot face the competition it is not, they argue, because they have failed to modernize or rationalize their production: it is not because they have failed to recognize new trading patterns and adjust to them. It is invariably because their foreign competitors are selling by unfair methods and at dumping prices on what they feel by right is first and foremost <u>their</u> market.

The wave of protectionist pressures that we have witnessed since 1975 has perfectly illustrated this now classical pattern. In 1974 and 1975 the world experienced the worst recession since the Second World War. It was followed by an uncertain and slow recovery in the United States with no significant improvement in the economies of Europe.

At the same time we were witnessing the emergence of new competitors in fields where the traditional industries of the developed countries were already struggling with structural problems.

WITH FEW EXCEPTIONS...

With few exceptions trade deficits piled up, partly as a result of the ever increasing cost of imported oil. The response to all of that has been a flurry of requests and demands for protection, both here and in Europe, that surpasses anything that we have seen since the Depression of the 1930's. And I think it is a tribute to the courage and good sense of our governments on both sides of the Atlantic that they have to a large extent resisted those protectionist pressures.

Now it may be true that imports have played a part in the recent and present difficulties of some of our industries. But they are not the only, nor even the principal, factor involved. Very often they serve only to highlight much deeper and more serious problems in those industries. And trade laws designed to protect industries against injurious competition, whether fair or unfair, though they have a role to play, are not necessarily the most adequate, nor the only possible remedy. Solving the difficulties that some of our industries face at present requires that we deal with the problem at its roots. It is not just a matter of greater enforcement of law and order in the international marketplace. We have to tackle the causes of the threatened breakdown. The political will that existed formerly and still exists towards free trade in general must now be accompanied by an additional commitment to deal with the structural problems. And by structural problems I mean the overcapacity and lack of competitiveness that exist in such industries as steel, textiles, footwear, synthetic fibers and shipbuilding; a list that could grow longer in the future.

If such problems are allowed to persist, and are only dealt with by way of anti-dumping measures, safeguard clauses, countervailing duties or section 337 investigations, in the long term nothing will be resolved. In fact there is a very real danger that we shall only

EXACERBATE TENSIONS IN THE....

exacerbate tensions in the international trading system. These kinds of responses will invite similar responses from others; they could become more and more protectionist in nature, and might ultimately threaten the free trade system that has been at the base of our common prosperity for the past thirty years.

To avoid such a disaster - and we have only to look back at the nineteen thirties to know that it would be a disaster - our first aim must be to try and restore economic growth and stabilise exchange rates. But even if we are able to do that, the effects will not be immediate, nor will everything have been solved. For the commercial and industrial problems that will remain, governments must at the same time have at hand subtler tools than merely trade laws. In Europe we believe that governments should not be faced, as they tend to be in the United States, with the stark choice: restrict imports or do nothing at all. They must also be equipped to deal with the real causes of the problem.

We do of course, in the European Community, still have at our disposal the conventional instruments to deal with injurious competition where it affects us. But today we only use such instruments, where occasion demands, towards the outside world - and then, I would emphasize, with some reluctance.

At this point let me say a word about those instruments. We have anti-dumping legislation - which can also be used against subsidies - and we have a safeguard clause. We do not have, however, the equivalent of your Section 301 of the Trade Act which provides for retaliation against unfair trade practices by foreign governments; nor do we have the equivalent of Section 337 of the Tariff Act to deal with unfair practices in import trade.

BOTH OUR ANTI-DUMPING...

Both our anti-dumping legislation and our safeguard clause follow closely the rules of the GATT.

Our anti-dumping law, like yours, requires a showing of sales at less than "fair value" and of injury. It provides for provisional measures; what you would call 'withholding appraisement'.

The safeguard clause allows us to limit imports of a product into the Community where the product in question is being imported in such increased quantities as to cause or threaten to cause substantial injury to our own producers.

I should also mention that when the Commission, the Community's executive and administrative branch, decides to impose dumping duties or to take safeguard actions, such decisions have to be confirmed at the political level by the Council of Ministers.

As you can see these two statutes are similar in purpose to your own trade laws but they differ significantly in two ways.

First, under our laws it is more difficult for firms to obtain relief from import competition. We employ stricter criteria in deciding whether the situation warrants such relief. In addition, each case has to be considered and acted upon at the highest political level - by the Council of Ministers.

The other major difference is that our laws allow more discretion to the Commission. In the case of dumping, the initiation of investigations is not automatic as it is in this country. In addition, the Commission has the power to refuse to grant relief, if it considers that it would not be in the best interests of the Community to do so, even where the existence of dumping has been proved.

As a result the number of investigations conducted by the Commission is, so far, much lower than that conducted in the U.S..

BEARING IN MIND...

Bearing in mind that we are talking about two single markets of comparable size, from 1970 to mid-1977 the United States investigated more than 200 cases of alleged dumping and around 70 coutervailing duty cases. In the same period the European Community investigated less than 40 similar cases. Where the Commission turned down requests for investigations, it did so because it felt that such investigations would have been of more harm than help to international trade.

As far as escape clause cases are concerned out of the 43 safeguard actions that we have taken between 1968 and July 1977, almost all came under the multi-fibre agreement, and have since either been eliminated or converted into bilateral agreements under the MFA. The few remaining cases involved either state trading countries, countries with which we have a bilateral agreement or non-members of the GATT. In all that time only one action has been taken under the normal safeguard clause, Article XIX of the GATT.

As I said earlier, and as I think the facts demonstrate, we have used our trade laws sparingly. That is because we have a philosophy in dealing with these problems that stems directly from our experience in managing free trade within the Community. As you know, we have created one single market where nine separate markets existed before. In doing so we have got rid of national safeguard legislation and national anti-dumping laws which could have restricted the free movement of goods between our nine countries. We have also instituted a competition policy - an anti-trust policy for the whole Community - which is aimed at avoiding the distorting effects of subsidies and monopoly practices. But we haven't left it just at that.

What we have attempted to do in the Community is not only enjoy the prosperity that comes from a liberal trading system but also mitigate the effects of unbridled competition where they impinge on sectors and regions that are least able to withstand it.

Inevitably there will be casualties in the kind of totally free and open competitive situation that we encourage. But we are not prepared to sit and watch those casualties bleed to death without lifting a finger. Politically and morally that would be unacceptable. Nor would it do much to persuade people of the benefits of the free market system. What we try and do is foresee where the blows are likely to fall and take corrective action before the damage is done. Thus if a particular industry appears to be threatened by competition we do not leave it to be wiped out nor do we preserve it in the aspic of protectionism. Our aim is to anticipate the problem and develop industrial policies which will make that industry better able to face the realities of the marketplace.

That does not mean Big Brother telling industry what changes to make and how to make them. The final decisions will lie with business, with the owners and managers of individual companies. What we can do is present a global view of the problems and, by throwing light on the help a particular industry to see how it might adapt itself to changing conditions. At the same time our social policies - funds for retraining for example - can make an additional contribution to the adjustment process by helping to ease the unemployment that will be inevitable.

To the extent that we make our presence felt in the marketplace, we do so for the sake of greater efficiency; in the name of more, not less, competition.

Similarly, we have to be aware of the effects that an open trading system will have on the poorer regions of the Community. You cannot, for example, expect Southern Italy, Southwestern France, Northeast England or Ireland to face overnight the economic challenges of West

Germany, Belgium or Holland without some kind of support. And we give them support, financial transfers from the richer areas to the poorer, so that they can become full and equal partners in a common economic system.

Our experience, as we have dismantled trade barriers within the Community, has confirmed us in our belief that free trade is a necessary condition of prosperity. But on its own it is not enough. For it to be wholly beneficial, for it to improve all our peoples' living standards, it must be accompanied by social, regional and industrial policies that maintain some kind of economic balance between different areas and industrial sectors in the Community. And I make no apology for saying that all of this means that government has a role to play.

Let me illustrate what I mean by describing what we have attempted to do to deal with the crisis in the steel industry. Since 1975 the world steel industry has been going through one of the most severe crises in its history. The facts are depressingly familiar to us all. Everywhere, including Japan, production has dropped and prices have sunk to levels below cost of production. Firms have suffered losses, plants have closed down and thousands of workers have been laid off.

The European steel industry has been particularly affected. Traditionally a net exporter, it has had to suffer from the cumulative effects of a reduction in its internal demand, an increase in imports and a reduction of its exports, which normally account for 15-20% of production. As a result, production which had reached 155 million tons in 1974, dropped to 126 million tons in 1977. In the last two years our steelmakers have been operating at an average of only 62% capacity. Prices on the internal market in 1977 dropped to 50 or in some cases 75% of their 1974 levels, bringing firms to the brink of bankruptcy.

IN THE INTERNATIONAL MARKETPLACE..

In the international marketplace, this crisis has led to a cut-throat competition, further disrupting already badly affected industries Pressures by industries on governments to obtain protective measures became greater and greater as the situation deteriorated. In the United States, the steel industry first of all filed a number of complaints under the various trade laws and piled up its demands for quantitive restrictions. Then at the beginning of 1977, it decided to concentrate its efforts on the dumping approach, filing a string of petitions against Japanese and European producers. Given the fact that the world market prices were below cost of production and given the provisions of the U.S. antidumping law, such petitions could very well have led to the elimination of imports from the U.S. market, thereby making even worse an already chaotic situation.

What had originally appeared to be one of those cyclical slowdowns that periodically affect the steel industry has thus turned into a deeper and different type of crisis. The general economic situation, particularly in Europe, where the economy had not really picked up since 1975, is unquestionably one of the causes of the persistent difficulties of this sector. But the duration and the depth of this crisis indicate that there are other more permanent factors involved.

First, overcapacity; it exists for two reasons - investment in new plants that resulted from overoptimistic forecasts of the long-term demand for steel and the fact that many developing countries are now not only producing steel for their own needs but also exporting it.

At the same time the traditional steel manufacturers had lost their competitive edge vis-a-vis both these new producers and Japan.

Given these elements, it was clear to us in Europe that none of the tools provided by the trade laws could by themselves be a suitable remedy. Anti-dumping laws were originally designed to give individual firms the possibility of obtaining relief from the unfair pricing policies of individual foreign competitors. They were not designed to serve as a remedy for a crisis of this magnitude. To close the U.S. and E.C. markets to foreign exporters would only have resulted in displacing the problem, not solving it. Nor could quantitative restrictions be considered a suitable remedy. We had already learned the lesson of "voluntary restraint agreements" in the late sixties and early seventies. Something, however, had to be done to avoid the total collapse of major firms. Neither the U.S. nor the E.C. could afford to let their steel industry go down the drain. It was estimated that left to free market forces, 30% of the European industry would be forced to close down in a matter of months, with the unbearable consequences on employment that one can imagine. A truce had to be called to create the climate necessary to undertake the long-term effort of modernization, adaptation of production capacities to new market conditions, and rationalization.

That is the reason why the EC has engaged, since 1976, in a comprehensive program of measures designed to deal with the short term as well as the long term aspects of the problem.

To deal with the short term crisis, the Commission decided in early 1977 to ask the European producers to freeze their present capacity and to agree voluntarily to reduce their output by assigning them given production targets. The idea behind this scheme was to organize on a voluntary basis, an orderly adaptation of production to the new market conditions which would also help raise prices.

AT THE SAME TIME....

At the same time producers agreed to respect guideline prices for the main rolled steel products. Mandatory minimum prices were set by the Commission for one product, to which were added subsequently two others.

After a while it became clear that the discipline requested of the European producers would not have the required effect if a similar discipline was not exercised by foreign industries. To this effect, the Commission instituted, at the beginning of 1978, a system similar to your trigger price mechanism, which is now being gradually replaced by a series of bilateral agreements with our main suppliers.

Under these agreements the countries concerned agree to require their steel producers not to sell in the Community at prices lower than 4-6% below the guideline prices and, as a counterpart, their exports to the Community are guaranteed at levels which take into account the "traditional flows of trade".

Our objective in taking these measures, which we see as being temporary, is to help the steel industry find part of the resources needed for its modernization.

For the long term, national plans within the Community, for restructuring the steel industry, are already under way. For its part, the Commission has the power to borrow funds on the private capital markets and to re-lend them to steel companies in the Community. This will help make it possible for those firms to reationalize and modernize and will also assist in the relocation and retraining of workers affected by the closure of obsolete plants.

The Commission will also be closely monitoring the national restructuring plans to make sure that they do not lead to further surplus capacity nor to plants that are no longer viable being kept alive by

GOVERNMENT SUBSIDY.

government subsidy. Within the Community this approach has meant developing new sets of relationships between government, industry, labor unions and consumers.

Beyond the frontiers of the Community we have been saying for some time that the crisis in the steel industry will mean developing new types of relationships between the Community and its trading partner The governments of the industrialised world have to start talking not just about reducing tariffs and other barriers to trade - the traditional stuff of commercial diplomacy. The crisis in an industry like steel is worldwide and structural. That is why we have to start talking about how, together, we are going to coordinate both our domestic and external policies to deal with the problems we share in restructuring an industry that has outgrown itself and which faces new market conditions

Such a dialogue has already begun in the OECD discussions on steel. In both these talks and future ones the Community has supported and will continue to support the idea of what we call 'transparency' of the market - the collection and publication of the most comprehensive data possible on all factors affecting the world steel market. We also consider it essential that a better international coordination be established between governments so that their action, on domestic markets as well as externally, instead of being detrimental to one another, complements and strengthens one another.

As far as the developing world is concerned, there too we have to strengthen the links of economic cooperation - in our own and their interests, and not out of a sense of charity or even guilt. In the European Community we have already started to do this. Not only because of our colonial past but because we believe the countries of the developing world to be our future markets, we are doing what we can to

BUILD UP THEIR ECONOMIES.

build up their economies. We already guarantee the raw material export earnings of 53 developing countries in Africa, the Carribean and the Pacific; we have also freely opened our market to those same countries without reciprocity and we make development capital and technical assistance available to them. In the future this, too, will have to be managed in a way that is in the best long term interests of all parties.

In the course of this summer we shall be negotiating the next phase of this economic cooperation agreement known as the Lome Convention, and here again we are stressing the concept of 'transparency'. If there is a regular and periodic exchange of information regarding market opportunities and investment plans in sensitive products it may be possible not only to avoid disputes but also to create an orderly growth in our trade with one another. Thus, for example, if our trading partners in the developing world are fully informed about the problems we face in, say, textiles, they will be in a better position to judge the wisdom of making investments in such a sector. Conversely, by having detailed knowledge of sectors of our market where domestic supply does not exist, they will be able to plan accordingly. And although the machinery for these consultations will have been set up by governments, business and labor will participate in them and the final choices in most cases will be theirs.

In all the areas I have described - restructuring of domestic industries, trade relations between the nations of the developed world and between them and the developing world - some might argue that all our problems could be solved by leaving the job to the market. But at a time when expectations of future growth are low, free market forces alone have a habit of being particularly harsh. Moreover, as market forces were doing their work - with all the social and industrial consequences that would involve - the political pressures for protectionism would grow so great as to be irresistible. The barricades would be up. Not only would the free trade system grind to a halt, so too would the process of restructuring those same industries. The incentive to do so, the spur of outside competition would no longer be present.

That is why, in Europe, we believe that this process must be managed in a rational and humane fashion. The necessary adjustments will cause more hardship than those we have undergone before and therefore will have to be made more slowly than was done before.

In the case of steel we should all perhaps have acted earlier. For the future, in dealing with the problems of injurious competition within the industrialised world, and between it and the developing world, we are saying that prevention is better than cure. Prevention will mean some painful surgery but we may otherwise not avoid the disease of protectionism; a disease for which there may be no cure.

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