

UNITED STATES-EUROPEAN COMMUNITY  
TRADE RELATIONS

speech given

by

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It is a great pleasure for me to be here this evening to speak for a few minutes on the European Community and its relations with the United States.

I do so, propitiously enough, on the eve of unprecedented face-to-face meetings in Brussels - tomorrow and Saturday - between four Cabinet members of the U.S. Administration and the Executive Commission of the E.C. under its President Gaston Thorn. These meetings will cover a broad range of issues. They illustrate the belief on the part of both the United States and Europe that a dialogue must be continued and expanded on the problems that divide us and which must be addressed frankly and conscientiously.

Indeed, the world-wide economic crisis and the temptation for protectionism which we see in all our countries, makes it extremely necessary that the two most important partners of the world trading system maintain their close relations in order to

- keep specific divergencies under control

and

- avoid any over spill into other areas of Euro-American relations.

I hope you will indulge me if I speak for a moment on what I believe is the important role the E.C. plays on the

plays on the Atlantic and world economic scenes today.

The ten nations that make up the European Communities have a combined population of 270 million and a combined Gross Domestic Product of \$ 2.7 trillion. The institutions and policies of the Community are the products of forces which emerged following the end of World War II

- the desire to avert war

and

- the desire to improve the living and working conditions of the people of Europe.

The process of trade liberalization, industrial development and economic integration, which underlies the E.C., has brought prosperity and growth to the nations of Europe.

At the same time, the consolidation of ten national economies and markets has created the world's largest single trading block and bred a powerful competitor for the United States. Through the E.C., European nations have been able to coordinate a variety of aid schemes with the Third World thereby securing essential relationships with developing nations. (This is something which has to be taken into account if one speaks of burden sharing.)

Finally, through the fledgling system of European Political Cooperation, the E.C. has established the beginnings of a truly "European" foreign policy, with common policies on

- the Helsinki Conference on Security and Cooperation in Europe
  - the Middle East
  - Poland
  - Afghanistan
- and
- Iran.

European participation in the Sinai peacekeeping force is the product in part of this growing process of harmonization of foreign policies.

The staggering economic growth in Western Europe over the past thirty-five years, which coincided with the evolution of European institutions, has also inevitably produced opportunities for friction with the United States. This friction has at times been bitter, but we can safely say, never of a terminal nature.

The ultimate irony, perhaps, of the U.S.-E.C. relationship is that in the 1960s and 1970s, as the European Community grew and gained more authority and legitimacy in

and legitimacy in economic matters, the United States reaffirmed support for the goals and ideals of the E.C., while at the same time continuously being confronted with sometimes irritating consequences of European policies, whether they be "chicken wars" or "steel crises".

Let me cite something which an American observer wrote in the early 1960s:

...The assumption that a United Europe and the United States would inevitably conduct parallel policies and have similar views about appropriate tactics runs counter to historical experience. A separate identity has usually been established by opposition to a dominant power:

... a united Europe is likely to insist on a specifically European view of world affairs - which is another way of saying that it will challenge American hegemony in Atlantic policy. This may well be a price worth paying for European unity; but American policy has suffered from an unwillingness to recognize that there is a price to be paid.

That was written by a young Harvard professor, a certain Henry Kissinger.

certain Henry Kissinger.

The continuing world economic crisis creates an atmosphere in both Europe and the United States of gloom and pessimism.

The depth of the crisis we are all facing cannot be overstated. Unemployment in the E.C. (as of October 1981) is 9.7 million, or 8.8 % of the total civilian labour force. In the United States, 8 million are currently unemployed, or 8.4% of the total civilian labour force.

In both Europe and the United States, young people under the age of 25 comprise over 40% of the unemployed. Economic growth over the past three years has been less than 2% on both sides of the Atlantic.

Such economic conditions cannot but bring about certain repercussions within the societies in which they are developing. Protectionism of domestic economies is a pressure that operates when difficult economic conditions arise.

The helplessness and frustration that growing elements of the population feel about their present status and their future fuel social attitudes that risk dividing the Western world. An emerging inward-looking mentality can in some way

in some way be interpreted - it seems to me - as an underlying force in the resurgence of pacifist and - in very limited areas - anti-American sentiment among many Europeans, particularly the youth. At the same time, in the United States, the rise of such a mentality could lead to a gradual return to isolationism.

I would hope that neither trend will prevail and that we can cooperate to reverse them.

In these times of lingering economic dislocation, rising unemployment, high inflation, and excessive interest rates, it appears to many that U.S.-E.C. relations are at their sourest ever, and, that indeed, some observers believe, the E.C. itself has gone sour.

I cannot but categorically disagree with such naysaying, and I hope that <sup>you</sup> do also - or will - when I have finished speaking.

The European nations have always been trading nations, and their dependence on trade is not new. The development of our cultures and social systems would not have been possible without extensive and diverse commercial exchanges with other European nations and the rest of the world. In 1980, imports

In 1980, imports and exports from and to third countries, constituted 25% of the E.C.'s Gross Domestic Product.

We are told in Europe that America has based its rise to economic superpowerdom on the same principle of free trade. The new American Administration in Washington is perceived as a "free-trade" advocate and indeed, in its own words, has reaffirmed the United States' commitment to that principle.

With this knowledge and the common belief in economic liberalism, I am confident that the European Community and the United States can tackle the numerous and complex trade issues that cause friction.

U.S. trade representative William Brock, in his confirmation hearings earlier this year, referred to the E.C. as "major friendly competitors with shared political values." Over the past thirty-five years, transatlantic trade has grown immensely, making our economies more interdependent than ever. Economic developments in the United States have severe effects in Europe and vice-versa. Economic recovery in Europe and the United States will be

States will be mutual and complementary. The United States and the E.C. are each other's major customer, and depend on each other to restore economic growth in the industrialized world.

According to the U.S. Commerce Department's statistics, in 1980, U.S. exports to the E.C. were valued at \$53.7 billion while imports ~~to~~<sup>from</sup> the E.C. were \$36.1 billion, resulting in a trade surplus of \$17.5 billion for the United States (of which 6.6 billion accounts for agricultural trade alone). This represents a doubling of the deficit over 1979. By way of comparison, the U.S. trade deficit with Japan in 1980 was around \$10 billion.

The reason for this sharply increased deficit is a continuation of soaring imports of U.S. industrial goods and declining E.C. exports to the United States. The rate at which the deficit has increased - as you can imagine - is of great concern to the E.C. member nations and their representatives in Brussels.

Although the rise in the value of the dollar in 1981 will probably half the deficit this year, this continuing imbalance in U.S.-E.C. trade, along with persisting high

with persisting high interest rates, exacerbates disagreements in certain economic sectors. The persistence of the recession on both sides of the Atlantic also creates an unfortunate ambience in which protectionist pressures can thrive.

In addition, between September 1980 and September 1981, and due to the high interest rates here, the dollar appreciated approximately 30% against the major European currencies. The dollar appreciation, and rising interest rates, have driven import prices and inflation upwards, aggravated overall E.C. balance of payments deficit, and made it more difficult for European countries to service their debt. The increase in the value of the dollar in 1981 and the fact that our oil bill has to be paid in dollars, caused a 'third oil shock' for Europe.

Thus far, it seems that protectionist tendencies have been successfully resisted on both sides. The history of our commercial relationship demonstrates that overall many of the points at issue between us in our trade relations can be resolved by patient diplomacy and negotiations.

diplomacy and negotiations.

As a matter of fact, the last decade was very successful in achieving progress towards further liberalization of world trade.

The E.C. represented the then-nine member-states in the GATT trade negotiations, agreeing on common positions and negotiating as a unified bloc.

With the help of the mechanisms that were created by the Multilateral Trade Negotiations (MTN) - the Tokyo Round - in 1979, the E.C. Commission has been responsible for defusing pressures from European business groups, unions and even national governments to reverse the steps that were so painstakingly taken to liberalize trade over the past generation.

These pressures persist nevertheless and threaten the integrity of the world trading system. In a period of soaring unemployment, high inflation, and low growth, it would not take much to trigger a trade war. If one trade

If one trade dispute which appears relatively unimportant or narrowly focused is allowed to get out of hand, it is likely to lead to more bitter disputes, with protectionist policies possibly spreading like wildfire.

This "Catch 22" situation - in which troubled economic times increase the likelihood of trade protectionism at a time when precisely the contrary - increased trade - is a necessary prescription for economic recovery - is not easily resolvable.

In light of the difficult economic conditions in the member nations of the E.C., several trade issues have assumed great importance in United States-E.C. relations. Those of us who favour the survival and expansion of free trade will have to pay attention to these issues. Allow me to cite some of them:

STEEL

As you know, the steel issue is, at this moment, the greatest single irritant in U.S.-E.C. industrial relations. 1981 has been a difficult year in this regard. The U.S. Government has itself recently initiated several cases to investigate steel imports to the United States.

the United States.

We in Europe accept in principle that the Trigger Price Mechanism (TPM) is, with all its defects, still the best solution to deal with the problem. However, we also feel that it must be construed and applied in such a way as to take into account the realities of the market place.

The United States and the E.C. have been engaged in a long dialogue on steel exports, but no resolution to the problem has emerged.

E.C. exports have fluctuated over the past five years -

<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
6.8 million tons	7.5 million t.	5.4 million t.	3.9 million tons

The 6 million tons expected to be exported in 1981 have been due to the surge in demand for energy-related items such as pipe and tube. Excepting pipe and tube, E.C. penetration of the U.S. steel market has dropped from 6.7% in 1977 to 4.5% in 1981.

More protection of the steel industry would be costly to the American consumer, and would not solve its structural problems.

its structural problems.

### AGRICULTURAL TRADE

Both the United States and the EC are major exporters of agricultural products. At the same time, the E.C. is the United States' most important client for agricultural goods, buying nearly \$9 billion annually from the U.S.

Our differences with the United States in the agricultural trade area revolve around E.C. policies on agricultural exports and imports and on the application of the Subsidy Code, established during the Tokyo Round of multilateral trade negotiations. The Code sets rules on export subsidies for agricultural products.

Although every country with major agricultural production, including the United States, has farm support programmes, with mechanisms to regulate imports and favour exports, the E.C. has been frequently criticized by its American competitor for the mechanisms it has in place.

The U.S. Government has recently initiated several formal complaints against the E.C. on - among others -  
wheat flour

- wheat flour
- sugar
- poultry.

This has been surprising to us because the E.C. had agreed to the Code in exchange for the general recognition of its agricultural policy and because it has closely respected the Code's obligations since its inception on January 1st, 1980.

The main U.S. argument is based on a different interpretation of the Code (representative reference period on the basis of which equitable market shares are determined).

By the way in the case of sugar, E.C. funding no longer exists and producers must bear the entire costs of surplus disposal. This at a time when the United States is preparing to raise its own sugar supports.

The major objective, at present, is to try and resolve these disputes within the settlement procedures provided by the Subsidy Code. Afterwards, we hope that further disputes can be avoided in the interest of both sides. Otherwise, such disputes could spill over into other areas. This would damage our overall bilateral relationship. In the difficult times we are experiencing at present, we cannot afford another "chicken war".

another "chicken war".

I would like to add that the E.C. is working hard to reform its Common Agricultural Policy, which, if successful, would render any further discussions under the Code unnecessary. We would hope, for example, to bring our cereal support prices down to the U.S. price support level within the next few years.

There are mainly two reasons for this reform policy:

- the Community is approaching the ceiling of its tax powers (a value added tax of - a maximum - 1%)
- The agricultural population in our Member States twenty years was more than 20 million. It has now dropped to 8 million. At the same time, the unemployment figure rose from 2 to nearly 10 million. Therefore, public opinion in all our Member States understands the need for changes in our expensive CAP.

#### TEXTILES

The past two years have witnessed a sharp increase in textile imports from the United States into the E.C. This is a subject of growing friction between the United

between the United States and the E.C. in large part because of Europe's ailing textile industry, which has suffered from increased imports from low-cost countries in recent years.

In 1979, for example, the E.C. imported textile and clothing products in the amount of \$11.5 million from low-cost sources, while the United States imported \$5.4 millions worth. Import penetration for the E.C. (1980) is 44% and for the United States 12.4% (1979) on a quantity basis.

For these reasons, and because the E.C. is much more exposed to pressure from low-cost textile and clothing imports, the E.C. believes that the three major markets for textile products - the E.C., the United States, and Japan - should share the burden of low-cost textile exports equally.

#### EXPORT CREDITS

In many countries, a situation has arisen in which export credits have become heavily subsidized. This has been a continuing sore point. However, following talks under the auspices of the Organization for Economic Cooperation and Development (OECD), as well as the realization of the exorbitant

of the exorbitant costs of export credits, a more positive atmosphere and a consensus among Japan, the E.C. and the United States has emerged. An agreement has recently been worked out on the principle of raising minimal interest rates. The present agreement is very important since, without a consensus, the industrialized countries would risk being involved in a "war of credits".

Before concluding my remarks this evening, I would be remiss if I did not address another trade issue which is of 'some' importance to both the United States and the member nations of the E.C.

The question of how to conduct East-West trade is also a major issue in U.S.-E.C. relations.

Trade with the Soviet Union and its East European neighbours, as well as with China, is a current source of strain between the United States and its Western European allies. Europe has a rapidly rising trade with the Eastern Bloc which, if barred or drastically cut back, would have severe economic consequences. Reducing trade with the East could also possibly undermine whatever political and social inroads had been made by the people

by the people of Eastern Europe as a result of increased commercial relations with the West.

The United States has expressed concern on the conclusion of the agreement between the Soviet Union and several European states regarding the proposed Northwest Siberian pipeline. For us, this project is to be seen as part of our energy diversification programme which will reduce the percentage of oil in our energy imports and increase the number of our suppliers.

Incidentally, the hard currency which the USSR will receive from us for its gas, will enable it to buy the enormous quantities of grain which the United States hope to sell to the USSR in the future.

The challenges in the 1980s to ensure as open an international trading system as possible are immense.

Reconciling the needs of particular domestic industrial and agricultural sectors with the requirements of a free trade system is not an easy thing to do for the U.S. Government or European governments.

or European governments.

But while we are competitors, we are also partners. Experience has shown that Europe and America can resolve trade disputes, because each is committed to maintaining an open world economy and the very close 'hotline' relationship that exists between trade officials on both sides of the Atlantic. Of course, each of us will seek to defend his interests as effectively as he can, but - because of our common political and economic values and our mutual interest in ensuring prosperity for our people - we have negotiated in good faith and - I sincerely believe - will continue to do so.

While Europe and America may have almost continuous - it seems - disagreements on how to deal with many issues, there are enough common beliefs among us to make us able to surmount whatever our differences may be by identifying what brings us together rather than by emphasizing what makes us differ from one another.

In a time when economic turmoil and political change test our will and when common challenges confront us, there

confront us, there is a critical need for the United States and its European friends and allies to rise above parochial concerns and to strengthen the Atlantic Partnership which still is the most brilliant achievement of American post-war diplomacy.

Tomorrow, in Brussels, the leaders of the United States and of the European Community will renew this pledge.