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U.S. - E.C. RELATIONS IN THE 80'S

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Had I had the pleasure of addressing this conference ten years ago, at the start of the 70's, I suspect that my remarks would have been along the following lines. That in Europe for the coming decade we were looking ahead to a fairly rosy future. Britain, Ireland and Denmark were on the verge of joining the Community with all the added political weight that that would give us. Our economies looked set to expand at the rates of growth we had enjoyed in the preceding decade of the 60's. Within the Community, we saw a fairly straightforward development toward economic and monetary union.
As we now know, such a rosy picture was not to correspond with the future as it in fact unfolded. The oil price shocks, the disappearance of any real international monetary system, the subsequent high inflation, low growth and worsening unemployment, all made the 70's a decade of disappointments, if not even of despair.

All of which demonstrates the risks inherent in trying to prophesy the future of the 80's and what our relations may be in the coming decade.

What one can however do more easily is to retrace the history of relations between the United States and the Community, to assess how they stand at present, and then try and give some forecast of how they might develop in the next...
IN THE NEXT YEAR OR SO, GIVEN THE KIND OF
POLICIES CURRENTLY BEING PURSUED ON BOTH
SIDES OF THE ATLANTIC.

FROM THE EARLIEST DAYS OF ITS CREATION
THE COMMUNITY BENEFITTED FROM THE SUPPORT OF THE
UNITED STATES. IT WAS GENERALLY ACKNOWLEDGED
THAT THE UNITING OF EUROPEAN DEMOCRACIES WAS
IN THE U.S. INTEREST, INDEED IN THE INTEREST
OF THE WEST AS A WHOLE.

PROBLEMS AROSE, HOWEVER, ONCE SOME OF
THE PRACTICAL CONSEQUENCES OF OUR BEING A
COMMON MARKET BEGAN TO IMPINGE ON U.S. ECONOMIC
INTERESTS. WE HAD TAKEN THE ECONOMIC ROAD TO
SOME FORM OF POLITICAL UNION. THIS MEANT THAT
THE UNITED STATES WAS HAVING TO DEAL WITH A
NEW COMMERCIAL PARTNER, SOMewhat DIFFERENT
AND EVEN SOMewhat GREATER THAN THE
SUM OF ITS PARTS; A NEW COMMERCIAL PARTNER,
MOREOVER,
MOREOVER, WHOSE COMMON POLICIES WERE DIFFERENT FROM THE EARLIER NATIONAL POLICIES AND WHICH THUS TOOK SOME GETTING USED TO. AND, ALTHOUGH THE UNITED STATES HAD ASSISTED AT THE BIRTH OF THE COMMUNITY, IT WAS NOT ITS PARENT, NOR EVEN AN OLDER SIBLING.


NOT ONLY DID ...
Not only did these disputes matter in themselves for the economic damage they could and did cause, but they also threatened to undermine the foundations of a healthy political relationship between the United States and the Community.

Fortunately, we learnt our lesson before it was too late and established and used mechanisms through which we tried to avoid any damaging conflict.

There have been the successive rounds of multilateral trade negotiations; discussions in the framework of the GATT and OECD; the twice yearly consultations between high-level officials from each side; day-to-day dealings through our permanent delegations in one another's capitals and,

THE ESTABLISHMENT...
THE ESTABLISHMENT OF CLOSE PERSONAL RELATIONS BETWEEN TRADE OFFICIALS ON BOTH SIDES OF THE ATLANTIC.

NONE OF THIS MEANS, HOWEVER, THAT WE ARE NOT STILL PLAGUED BY THE KIND OF COMMERCIAL PROBLEMS THAT WERE WITH US BEFORE. THE DIFFERENCE IS THAT WE NOW HAVE A VARIETY OF MECHANISMS OR FORA THROUGH WHICH TO DEAL WITH THEM.

THE PROBLEM, HOWEVER, IS THAT WHILE WE HAVE ALL THESE MECHANISMS, THE SCALE AND DIMENSION OF POTENTIAL COMMERCIAL CONFLICTS HAS INCREASED. THIS IS PARTLY BECAUSE OUR TRADE WITH ONE ANOTHER HAS EXPANDED SO FAST AND REACHED SUCH AN ENORMOUS VOLUME, THAT ANY HICCUP BECOMES OF IMPORTANCE.

IN ADDITION, WE BOTH FACE A MAJOR PROBLEM IN THE SHAPE OF THE HUGE DEFICITS THAT WE EACH...
THAT WE EACH HAVE WITH OPEC.

THIS MEANS THAT THE FIRST AREA OF POTENTIAL CONFLICT BETWEEN US LIES IN THE TEMPTATION THAT EXISTS TO PURSUE 'BEGGAR THEY NEIGHBOUR' POLICIES AGAINST ONE ANOTHER IN A MISGUIDED ATTEMPT TO OFFSET THE COSTS OF IMPORTING OUR OIL.

FOR EXAMPLE, WITH THE EXCEPTION OF JAPAN, ALL MAJOR INDUSTRIALISED COUNTRIES HAVE IN RECENT YEARS BEEN RUNNING SUBSTANTIAL TRADE DEFICITS.
THE COMMUNITY'S TRADE DEFICIT WITH THE UNITED STATES HAS, IN JUST ONE YEAR, ALMOST DOUBLED TO AROUND $20 BILLION. COMPARE THIS WITH THE U.S. DEFICIT OF $10 BILLION WITH JAPAN, AND YOU BEGIN TO GET SOME IDEA OF THE CONCERN THIS MAY BE CAUSING. NOT THAT WE CONSIDER A DEFICIT PER SE TO BE A BAD THING IN OUR TRADE WITH THE UNITED STATES, BUT THE RATE AT WHICH IT HAS INCREASED, AND PERHAPS MAY CONTINUE TO DO SO, CANNOT BE TAKEN LIGHTLY.

THERE IS ALSO THE FACT THAT THE COMMUNITY'S WORSENING DEFICIT BOTH WITH THE UNITED STATES AND THE REST OF THE WORLD IS PILING AGAINST A BACKGROUND OF DECLINING ECONOMIC GROWTH AND RISING UNEMPLOYMENT.

IN SUCH CIRCUMSTANCES...
IN SUCH CIRCUMSTANCES, DISPLACED WORKERS AND HARD-PRESSED BUSINESSES ARE QUICK TO BLAME FOREIGN COMPETITION FOR THEIR WOES. DEMANDS FOR PROTECTIONISM BECOME LOUD, INSISTENT AND IMPOSSIBLE TO IGNORE.

THE DEMANDS FOR PROTECTION ARE EXPRESSED WITH PARTICULAR FORCE, IN THOSE SECTORS WHERE A TRADE PROBLEM HAS BEEN APPARENTLY BEEN SOLVED BUT WHERE THE SITUATION HAS PROVED TO BE UNSATISFACTORY. THE CLASSIC EXAMPLE AT PRESENT IS IN THE CASE OF STEEL. FOR A VARIETY OF REASONS, ONE OF WHICH IS THE UPWARD ADJUSTMENT TO THE SO-CALLED TRIGGER-PRICE MECHANISM, THERE HAS BEEN A DRAMATIC FALL IN COMMUNITY EXPORTS OF STEEL TO THE UNITED STATES. FROM 7.4 MILLION TONS IN 1978 TO 5.4 MILLION TONS IN 1979, AND FROM THERE TO 3.5 MILLION TONS IN 1980. WE MAY HAVE BOUGHT PEACE THROUGH THE EFFECTIVE USE OF THE MECHANISM I MENTIONED EARLIER: BUT FOR US IN EUROPE PEACE HAS BEEN BOUGHT AT QUITE A HIGH PRICE.

LASTLY ...
LASTLY, there is the question of Japan. Each of us has an almost identical problem in trade with Japan. The U.S. deficit with Japan is in the order of $10 billion. That of the Community is of around the same magnitude. The products that the Japanese sell on the U.S. market with greatest success are the same as those now claiming an even greater share of the European market. Automobiles, TV sets, electronic products, machine tools: all the products of industries in which both the United States and Europe have immense investments of both capital and labour.

This is not therefore a matter that can be dealt with either simply between the United States and Japan or between ourselves in the Community and Japan. Any action...
ANY ACTION THAT ONE OF US TAKES IS BOUND TO HAVE AN EFFECT ON THE OTHER AND THE EFFECT IS LIKELY TO BE AN ESCALATING ONE.

IF, FOR EXAMPLE, THE UNITED STATES WERE TO TAKE ACTION TO RESTRICT JAPANESE CAR IMPORTS, THE FIRST EFFECT ON US WOULD BE THAT THE JAPANESE WOULD INTENSIFY THEIR EFFORTS ON THE EUROPEAN MARKET.

OUR OWN INDUSTRY, SEEKING RELIEF FROM THIS ADDED PRESSURE AND CITING THE ACTION OF THE U.S. GOVERNMENT, WOULD DEMAND SIMILAR PROTECTION. THEIR ARGUMENTS WOULD BE HARD TO REFUTE.

BUT IT WOULD NOT STOP THERE. OTHER SECTORS, SAY FOR EXAMPLE TEXTILES, WOULD SAY THAT WHAT WE HAVE DONE FOR AUTOMOBILES WE MUST NOW DO FOR THEM.

BUT THE IMPORTS...
BUT THE IMPORTS THAT THEY WOULD WANT STOPPED MIGHT NOT BE COMING FROM JAPAN BUT FROM THE UNITED STATES.

THE PROBLEM, THEREFORE, IS A TRIANGULAR ONE. IF IT IS TO BE SOLVED WITH THE MINIMUM OF DAMAGE TO ALL CONCERNED, IT MUST BE APPROACHED AS SUCH. THE THREE OF US TOGETHER HAVE TO LOOK AT WAYS OF SOLVING IT. WE ALL HAVE TO BE ON THE SAME TRACK, AT THE SAME TIME.

AND THE U.S. - E.C.-JAPANESE TRIANGLE.

LOOKING TO OUR WIDER ECONOMIC RELATIONS, WE ARE IMMEDIATELY CONFRONTED BY THE POSSIBLE EFFECTS ON OUR OWN ECONOMY OF THE UNITED STATES' ECONOMIC PROGRAMME. ITS AIMS ARE LAUDABLE. WE ARE THE FIRST TO RECOGNISE THAT IF THE UNITED STATES CAN REDUCE ITS INFLATION RATE THEN THAT WILL HELP BRING DOWN OURS. JUST AS READILY, WE RECOGNISE THAT INFLATION-FREE GROWTH IN THE UNITED STATES WILL HELP SPUR OUR CURRENTLY SLUGGISH ECONOMIES. WE ARE READY TO ACCEPT, FOR A PERIOD, CONTINUING HIGH INTEREST RATES AND EVEN NEGATIVE GROWTH, IF THAT IS THE PRICE OF SUCCESS, BUT ONLY, I WOULD EMPHASISE, IF THE POLICY DOES SUCCEED.

IN A SENSE, WE ARE NO DIFFERENT FROM THE AMERICAN ELECTORATE. WE ARE READY FOR SOME SACRIFICES BUT WE ARE EXPECTING SOME RESULTS. THE ONLY DIFFERENCE OF COURSE IS THAT WE DON'T GET ...
THAT WE DON'T GET TO VOTE.

WHILE WE ARE PREPARED TO GIVE THE POLICY EVERY CHANCE OF SUCCESS, IT DOES NOT FOLLOW THAT WE ARE NECESSARILY PREPARED, OR FEEL OBLIGED, TO EMBARK ON AN IDENTICAL POLICY OURSELVES.

OUR ECONOMIC POLICIES MAY BE INFLUENCED BY WHAT IS HAPPENING IN AMERICA AND ELSEWHERE, BUT THEY MUST FINALLY BE ARRIVED AT IN THE CONTEXT OF OUR OWN SOCIAL, INDUSTRIAL AND POLITICAL ENVIRONMENT.

THE CONSENSUS THAT APPARENTLY EXISTS IN THE UNITED STATES FOR CUTTING PUBLIC EXPENDITURE IS NOT SO EASILY ARRIVED AT IN EUROPE. THAT, WHETHER WE LIKE IT OR NOT, IS A FACT OF LIFE THAT CANNOT BE CHANGED OVERNIGHT.

THE REMARKABLE THING ABOUT THE CURRENT ECONOMIC...
ECONOMIC CRISIS IN EUROPE IS THE RELATIVELY MINOR IMPACT THAT IT HAS HAD ON OUR SOCIAL AND POLITICAL STABILITY. THIS IS IN LARGE PART DUE TO THE FACT THAT OUR SOCIAL POLICIES AND EXPENDITURES HAVE MITIGATED THE WORST HUMAN EFFECTS OF THE RECESSION. ONE WONDERS WHETHER THOSE WHO URGE US TO CUT SOCIAL EXPENDITURES AT THIS MOMENT HAVE FULLY CALCULATED THE RISKS OF SO DOING.

A FURTHER POINT THAT CANNOT BE OVERLOOKED IS THE CLOSE LINK BETWEEN U.S. ECONOMIC AND BUDGETARY POLICY AND A POLICY OF INCREASED DEFENCE EXPENDITURES. THIS TOO IS GOING TO BE A RECURRENT THEME IN OUR RELATIONSHIP OVER COMING YEARS.

THE COMMUNITY AS SUCH, OF COURSE, IS NOT IN ANY WAY INVOLVED IN DEFENCE QUESTIONS. THAT IS A MATTER THAT IS DEALT WITH PURELY BY OUR NATIONAL GOVERNMENTS AND WITHIN NATO.

LET ME, HOWEVER ...
LET ME, HOWEVER, MAKE A FEW PERSONAL OBSERVATIONS ON THIS QUESTION.

IT IS QUITE TRUE THAT THERE IS AN INTERNAL DEBATE IN EUROPE ON DEFENCE QUESTIONS. THIS IS HEALTHY AND NATURAL.

IF DEFENCE DECISIONS ARE TO BE SUCCESSFULLY IMPLEMENTED, THEY MUST BE POLITICALLY ACCEPTABLE. THAT MEANS BUILDING A CONSENSUS FOR THEM; AND, TO BUILD A CONSENSUS IN A DEMOCRACY, ALL POINTS OF VIEW - EVEN THOSE OF SO-CALLED PACIFISTS - MUST BE EXPRESSED, MUST BE LISTENED TO AND MUST BE TAKEN INTO ACCOUNT BEFORE A DECISION IS TAKEN.

THE SAME IS TRUE IN THE UNITED STATES, THE DIFFERENCE IS ONLY BETWEEN THE SUBJECTS WITHIN THE DEFENCE AREA IN WHICH THERE IS DEBATE. IN THE UNITED STATES THERE IS CONTROVERSY OVER THE COST AND SITING OF STRATEGIC...
STRATEGIC SYSTEMS. IN EUROPE THERE IS SOME ARGUMENT OVER THE DEPLOYMENT OF TACTICAL NUCLEAR WEAPONS. IN THE UNITED STATES THE QUESTION OF THE DRAFT IS ONE THAT ALMOST NO ONE DARES RAISE. IN EUROPE, WHERE WE KNOW WHAT IT IS TO HAVE WAR WAGED ON YOUR OWN TERRITORY, COMPULSORY MILITARY SERVICE IS AN ACCEPTED FACT IN MOST OF OUR COUNTRIES.

IN ADDITION, WE DO NOT BELIEVE THAT DEFENCE EXPENDITURES SHOULD BE THE SOLE YARDSTICK BY WHICH WE MEASURE WHAT EACH IS DOING TO CONTRIBUTE TO GLOBAL SECURITY AND STABILITY.

IN THIS CONTEXT, I WOULD CITE TWO CASES OF WHAT THE COMMUNITY IS DOING; CASES WHERE WE FEEL THAT OUR POLICIES ARE ASSISTING IN PROMOTING WESTERN SECURITY AS DEFINED IN ITS WIDEST SENSE.

FIRST THERE IS . . .
FIRST THERE IS THE QUESTION OF THE ENLARGEMENT OF THE COMMUNITY.

AT THE BEGINNING OF THIS YEAR GREECE BECAME THE COMMUNITY'S TENTH MEMBER. IN THE COURSE OF THE NEXT TWO OR THREE YEARS, WE SHALL COMPLETE ARRANGEMENTS FOR SPAIN AND PORTUGAL TO JOIN THE COMMUNITY. THE DECISION TO PRESS AHEAD WITH THE ENLARGEMENT OF THE COMMUNITY IS ONE THAT WAS TAKEN FOR POLITICAL RATHER THAN ECONOMIC REASONS.

IT IS A DECISION THAT WILL PROVE ECONOMICALLY EXPENSIVE TO US.

EACH OF THESE COUNTRIES WAS UNTIL RECENTLY LIVING UNDER SOME FORM OF DICTATORSHIP. ONCE THEY HAD GOT RID OF THEIR RESPECTIVE DICTATORSHIPS, ONE OF THE FIRST THINGS THAT THEY DID WAS TO APPLY TO JOIN THE COMMUNITY; FOR THE SPECIFIC POLITICAL REASON THAT THEY WISHED...
THAT THEY WISHED TO BE INCLUDED IN THIS
DEMOCRATIC FOLD, TO REINFORCE THEIR NEWLY-WON
DEMOCRACY.

AND IT WAS FOR THAT REASON, BECAUSE OF
THE POLITICAL RESPONSIBILITY THAT WE FELT,
THAT WE ACCEPTED THEIR APPLICATIONS - IN SPITE
OF THE ECONOMIC PROBLEMS THAT WE KNEW THIS
WOULD CAUSE.

SECOND AS AN EXAMPLE OF THE CONTRIBU-
TION WE ARE MAKING TO OVERALL WESTERN SECURITY,
I WOULD MENTION OUR RELATIONS WITH THE
DEVELOPING WORLD. THE COMMUNITY AND ITS MEMBER
STATES NOW GIVE OVER TWO AND HALF TIMES AS MUCH
AID TO THE THIRD WORLD AS DOES THE UNITED
STATES.

MOREOVER, THE WAYS IN WHICH WE ASSIST
DEVELOPMENT IN THE THIRD WORLD GO FAR BEYOND
A SIMPLE TRANSFER IN THE FORM OF LOANS AND
GRANTS ...
GRANTS. WHAT WE ARE ESTABLISHING IS A SYSTEM OF ECONOMIC CO-OPERATION WITH THE DEVELOPING COUNTRIES.

THERE ARE OBVIOUS HUMANITARIAN MOTIVES FOR WHAT WE ARE DOING. WE FEEL A GENUINE RESPONSABILITY FOR THE DEVELOPMENT OF THESE COUNTRIES.

AT THE SAME TIME THIS IS A POLICY OF ENLIGHTENED SELF-INTEREST. THE DEVELOPING WORLD IS AN IMPORTANT SOURCE OF RAW MATERIALS TO US AND A SIGNIFICANT MARKET FOR OUR OWN PRODUCTS. OUR OWN ECONOMIC INTERESTS PUSH US IN THE DIRECTION OF DEVELOPING RELATIONS WITH THESE COUNTRIES. IN THE PROCESS WE CONTRIBUTE TO THEIR ECONOMIC AND THEREFORE POLITICAL, STABILITY. AT THE SAME TIME, WE ARE ABLE TO HELP FURTHER AND PROMOTE MORE STABLE POLITICAL RELATIONS BETWEEN NORTH AND SOUTH.

AS EUROPE AND THE UNITED STATES PURSUE THE DISCUSSION OVER THE JOINT-SHARING OF THE BURDENS OF OUR COMMON SECURITY, WE FEEL THAT THOSE ...
THOSE POINTS SHOULD BE TAKEN INTO ACCOUNT.

THE COMMUNITY IS AN IMPORTANT PARTNER IN THAT DISCUSSION. THE FACT THAT, LIKE THE POPE, WE HAVE NO DIVISIONS - NOT EVEN A SWISS GUARD - DOES NOT MEAN THAT WE PLAY NO ROLE IN CONTRIBUTING TO OVERALL SECURITY INTERESTS.

LET ME CONCLUDE BY COMING BACK TO WHAT IS NEVERTHELESS THE PRINCIPAL ASPECT OF BILATERAL RELATIONS BETWEEN THE COMMUNITY AND THE UNITED STATES - OUR TRADE RELATIONSHIP.

THE NEXT FEW YEARS WILL NOT BE EASY.

NONE OF THE EFFORTS BEING MADE IN THE UNITED STATES AND IN EUROPE TO REVITALISE OUR ECONOMIES WILL BE OF ANY EFFECT IF WE FALL PREY TO THE TEMPTATION OF PROTECTIONISM.

WHILE HIGH LEVELS OF UNEMPLOYMENT PERSIST, WHILE OUR ECONOMIES GROW MARGINALLY, IF AT ALL, THE PRESSURE FOR PROTECTIONISM WILL GROW...
GROW.

I HAVE ALREADY MENTIONED THE COMMUNITY'S DEFICITS BOTH WITH THE UNITED STATES AND JAPAN. WE ALL KNOW OF THE PROBLEMS IN SENSITIVE SECTORS SUCH AS AUTOMOBILES, STEEL AND TEXTILES.

THE TEMPTATION WILL BE TO RESORT TO ALLEGEDLY TEMPORARY TRADE RESTRICTIONS IN AN EFFORT TO SOLVE SUCH PROBLEMS. WE ALL KNOW OF THE VARIOUS MEANS AVAILABLE TO LIMIT IMPORTS. THE WEAPONRY OF IMPEDIMENTS TO TRADE IS HOUSED IN A WELL-STOCKED ARSENAL.

OUR TRADE DEFICITS MAY APPEAR AT TIMES TO BE GIGANTIC AND TO WARRANT THE USE OF THIS ARMORY. THIS DOES NOT PER SE EITHER JUSTIFY OR EXCUSE RESTRICTING OR HAMPERING TRADE.

PROTECTION BY ONE SIDE WOULD INEVITABLY LEAD TO...
LEAD TO A SPIRALLING SERIES OF RETALIATORY MEASURES WHICH COULD ONLY DO DAMAGE TO THE FABRIC OF THE ECONOMY OF THE WESTERN WORLD.

THE TEMPTATION TO RESORT TO PROTECTIONISM HAS TO BE FIRMLY RESISTED.

IT IS THE GREATEST TRAP INTO WHICH WE COULD FALL. IF WE CHOOSE TO SQUARE OFF AGAINST ONE ANOTHER AS ECONOMIC RIVALS, IT IS HARD TO SEE HOW OUR PARTNERSHIP ON ANY OF THE OTHER COMMON ISSUES FACING US COULD SURVIVE.