

SPEECH BY
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"EC / US RELATIONS: HOW STRONG IS THE ALLIANCE?"

Ladies and Gentlemen,

It is with great pleasure that I have come to Copenhagen today to inaugurate the first official meeting of the Danish Chapter of the American-European Community Association. And I am particularly honoured to address such a distinguished group of Danish leaders and other friends committed to our common cause.

The European Community today - only a few weeks before the second election of the European Parliament - is still in the middle of a serious crisis which threatens its credibility and potential for future action. The next European Council at Fontainebleau offers a new opportunity to overcome our internal budgetary quarrel and to at last put our house in order. Only then can we address the real problem which is what sort of Europe do we want for the future. President Mitterand spoke of his vision of Europe in Strasbourg last week, I myself put forward some of my ideas in Florence on the same day when I was privileged to give this year's Jean Monnet lecture. The European Parliament - under the impulsion of Altiero Spinelli - has made its own original contribution. Thus, the basic material is not lacking.

/What we need

What we need now is courage and determination to translate these ideas into reality. But this is not my topic today.

I have been asked to speak to you on the current state of relations between the European Community and the United States. My message today is one of concern, but also of hope. Concern, because, in our economic and trade relations with the USA, we may now be facing one of the most tricky periods since the founding of the Community. The lists of points of contention - which I shall review in a moment - is a long and growing one, of increasing difficulty and importance.

/ At the same

At the same time, hope. Because reasonable men on both sides (and, thank goodness, we are reasonable men) realise that there is too much at stake, economically and politically, despite our many differences, to allow the Community-US relationship to founder. Two-way trade between us amounted to around \$90 billion in 1983. The Community and the US are the principal pillars of the liberal world trading system.

The Atlantic Alliance (even though not all Member States are members of NATO) remains the cornerstone of our foreign and defence policies. All this is too precious to be put at risk for a series of sectoral bilateral squabbles, no matter how important each may seem in itself.

How strong then is the Alliance?

/Let me

Let me address the economic aspects of our partnership with our American friends in some detail, as this is an area in which the European Commission is most directly involved.

As I have said, the list of squabbles is long, and growing. Our concern, on the Community side, is first and foremost with the growing tide of protectionist pressures on the other side of the Atlantic. In February the Community's Council of Ministers took the unprecedented step of issuing a statement expressing its grave concern at this trend.

As that statement makes clear, we recognise, and are grateful for, the efforts that the US Administration has made, and is continuing to make, in opposing a number of protectionist initiatives. We were relieved to learn on 6 March that the US International Trade Commission had ruled that allegations that our wine exports were injuring US producers were unfounded.

/Similarly,

Similarly, with the recent import relief petition against imports of flatware, where the ITC also decided that these imports were causing no injury to the American industry. These examples show that, even in difficult times, it is still possible to reach fair and objective decisions. But, nevertheless, a number of measures against imports have in the event been taken in Washington.

The most important, from the Community's point of view, were those in the speciality steel sector. Here, the Community introduced in March of this year counter-measures to offset (in accordance with GATT rules) the effect on the Community of the import relief granted by the US Government in July 1983. This followed the failure of lengthy consultations in which the US side was not able to come up with an offer of compensation which we felt in a position to accept.

The Community is also concerned about a number of import relief measures currently under consideration on such diverse products as carbon steel, footwear, copper and machine tools.

The request filed by Bethlehem Steel in January 1984 for import relief action against carbon steel may well endanger the continued implementation of the Carbon Steel Arrangement negotiated between us in October 1982. This arrangement, reached only after lengthy and difficult negotiations between public authorities and industries on both sides, was designed precisely to avoid further relief action of this sort. We therefore look to the American authorities to use all their influence to avoid a situation in which the 1982 Agreement would have to be terminated. We also hope that the US Government will use its influence to dissuade the industry from starting anti-dumping and countervailing duty actions against imports of pipes and tubes.

An import relief petition was filed by the non-rubber footwear industry in the US in January. Quantitative import restrictions are sought for a five-year period, and this notwithstanding the fact that the US footwear sector has, in recent years, benefitted from various forms of import relief.

/It is,

It is , of course, not difficult to understand why these protectionist pressures have arisen.

The present high rate of the dollar has by general agreement reduced the competitiveness of US industry both in its home market and in export markets. This has led to increased imports and to a reduction in exports. Last year's trade deficit of nearly \$70 billion is expected to rise even further, to \$100 billion or more, by the end of this year. An election year is liable to seem as the ideal time to draw the attention of politicians to these issues and to seek relief through protectionist trade measures from what are basically the effects of macro-economic and monetary problems.

This general phenomenon has been exacerbated in traditional sectors like steel, textiles, footwear, and shipbuilding by the realignment of international competitiveness in favour of the newly industrialised countries of Latin America and the Far East. Here we both face similar problems. The necessary restructuring and rationalisation require a process of painful readjustment.

The temptation will be for governments to take protectionist measures, and to increase subsidization, as a means of avoiding further reductions in industrial capacity, with all the social and political consequences that this entails.

Neither side has completely clean hands here. But there is now serious concern in the Community over the awesome pressures to which various industrial lobbies will subject the US Administration over the coming months. The recovery in the States has, unfortunately, not reduced this pressure for protectionism, but has actually reinforced it. It has sucked in imports to the US at a time when recovery is still patchy in many of America's export markets. The list of requests from industry for import relief and other measures of protection has never been as long as in the last few months. In the US Congress, several bills are under discussion which, if adopted, could lead to a further protection of the American market. We naturally look to the

/US Government

US Government to do all it can to oppose such legislation. The concepts of strictly bilateral and sectoral reciprocity, domestic content and industrial targetting which these bills would introduce, would be harmful not only to EC/US trade relations but also to the multilateral trading system as a whole. Such pressures must be firmly resisted on both sides of the Atlantic. Another source of frustration and tension in US/EC relations is the continuing high level of US interest rates. This requires European governments and central banks also to keep their interest rates higher than they would like to, at a cost to the general economic upturn in the Community. And it has led to a drain of European capital to the other side of the Atlantic. The coming Western Economic Summit in London - after Versailles in 1982 and Williamsburg last year - will once again have to deal with this particularly sensitive issue.

The US side, for its part, has concentrated its criticism on the so-called subsidization of the Community's agricultural sector, through which it is alleged the Community is taking away traditional US markets in third countries, contrary to the GATT rules. This had led the US authorities to initiate a number of procedures against

/ our agricultural

our agricultural exports in the GATT.

I would like to reply to such criticism in four different ways. First, we are not subsidising our farmers in order to boost exports. The aim of the CAP is to ensure that those on the land receive a decent income comparable to that in other sectors. Most developed countries - including the US - pursue the same aim through their domestic agricultural policies. The instruments we use vary, as does the success with which we achieve this aim. In the Community's case, real farm income has in fact remained stagnant, or has even fallen, since 1976. We have, like the US, been confronted with the problem of over-production and surpluses.

But we have managed these surpluses in a responsible manner. They have not been dumped willy-nilly on the world market. We are now holding record stocks of a number of products. And, as you all know, in March of this year, the Council of Ministers took a series of important decisions regarding the Common Agricultural Policy aimed at keeping agricultural production under control by limiting the level of price support for sectors in surplus, in particular the dairy sector.

/Moreover,

Moreover, despite our problems of over-production, the Community has maintained its position as the world's largest agricultural importer. We import the major part of New Zealand's butter exports, even at a time when Community butter stocks are around 1 million tonnes. We import 1.3 million tonnes of sugar from the Third World every year. We are one of the US farmer's best, and most reliable, customers.

Second, we traditionally export a number of products to various markets around the world. In order to preserve this traditional role, the CAP provides for export refunds to be paid to our exporters, to make up for the difference between our internal market price and the world market price, where this is lower. This is quite in line with existing GATT rules. We do not accept the criticism that the Community has taken an inequitable share of the world market.

/Admittedly,

Let me address the economic aspects of our partnership with our American friends in some detail, as this is an area in which the European Commission is most directly involved.

As I have said, the list of squabbles is long, and growing. Our concern, on the Community side, is first and foremost with the growing tide of protectionist pressures on the other side of the Atlantic. In February the Community's Council of Ministers took the unprecedented step of issuing a statement expressing its grave concern at this trend.

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/Similarly,

Lastly, let us not forget that the American farming sector also benefits from a whole range of measures directed at income protection as well as at the disposal of surplus production and export promotion. Government spending in the US farming sector is running at a level broadly comparable to that of the EC and its Member States (\$ 30 billion in 1982).

I have devoted most of my speech so far, Ladies and Gentlemen, to the issues which divide the Community and the US. What I now want to stress is that we are also partners. Indeed, we cannot afford not to be partners, and we certainly cannot permit sectoral trade squabbles to put the partnership in jeopardy. This is equally true, whether one looks at it from the bilateral economic angle, the multilateral economic angle, or from its wider political aspects.

/First, we have to

First, we have to remember the underlying political relationship between the Community and the US. This is a central pillar of the Western Alliance and reflects our common belief in a pluralist democratic system. There can be no doubt that the Atlantic Alliance is the best security guarantee we Europeans have. We may have our differences, for example the Siberian pipeline issue in 1982. But these differences of opinion are only normal, and healthy among allies. I call them "family quarrels". The fact is that, when the chips are down, we stand together.

Second, our bilateral economic interest. As I have said, two-way trade between the US and the Community came to about \$90 billion in 1983. Our various bilateral disputes concern only a small part of this total. We are, by far, each other's most important market. Moreover, this mutual trade has helped preserve stability through a period of unprecedented economic and monetary upheaval, when the ability of many customers to pay for their purchases has been put in doubt.

/Third, in the

Third, in the multilateral sphere, we share a great responsibility for the maintenance of the open world trading system and for the continuing expansion of trade, not only between our two economies but also with our other advanced partners and with the less developed countries. We have to live up to the commitments we have made together in the OECD, at the Williamsburg Summit, at UNCTAD VI and elsewhere.

The United States and the Member States of the European Community were among the founding fathers of our liberal world trading system, which laid down the basic rules for the growth of free, but fair, trade, and for consultation and dispute settlement in the General Agreement on Tariffs and Trade. More recently, the Community and the US have made major contributions to a further refinement of the original system, by working out a whole series of agreements and codes aimed at a better implementation and interpretation of these basic rules.

/The Tokyo Round

The Tokyo Round of Multilateral Trade Negotiations was a major success of international cooperation, in which the initiative and leadership lay mainly with the United States and the European Community.

The idea is now being floated of a possible new round of multilateral trade negotiations. The Community is of course in favour of trade expansion. But we are, equally, under no illusions about the difficulties which have to be overcome if such a new round is to succeed. The worst possible scenario would be a new round which failed. Careful preparation will be essential. We must reinforce our efforts to resist the tide of protectionist pressures. We must live up to our existing commitments concerning the rollback of restrictive measures already in force. We must press ahead with the completion of the current GATT work programme. Success will also require the assurance of a sustained and solid economic recovery, and improvements in the operation of the international financial and monetary system.

/And we

And we need a broad consensus among all GATT partners with regard to the objectives, participation and timing of a new round of trade negotiations.

The preservation of the free trading system relies on continued cooperation between its three main pillars, the US, Japan and the EC. We must ensure that this spirit of cooperation and shared responsibility continues, and that we avoid any actions which might undermine this unique free trading framework. In particular, we have to avoid testing to destruction the dispute settlement procedure of the GATT, by expecting it to solve our bilateral dispute by legislative fiat, when we were unable to solve them by negotiation.

These are the stakes we are playing for today, as we try to grapple with the points of contention between us. And here, I would like to say a word to those on the other side of the Atlantic who might be tempted to think that the stakes are not worth playing for, that Europe is a decadent and inward-looking civilisation, with inefficient and subsidized industries, riddled with

internal squabbles, an unreliable ally,
and unworthy of the attention of a United
States whose future interest will increasingly
point towards the Pacific.

To these doubters I say this.
The Community is the most open market in
the world. Imports are equivalent to over
13% of our GDP, higher than either the US
or Japan. We have not hesitated to shoulder
our responsibilities towards our less fortunate
neighbours in the Third World. We are importing
more non-oil goods from the Third World
as a percentage of GDP than the US. Indeed
the Community absorbs well over a third
of all Third World exports to developed
countries, more than anybody else. Of the
36 countries on the UN list of the least
developed, 25 have privileged trading links
with the Community under the Lomé Convention.
As regards debtor countries, the Community's
record is also sound. We have traditionally
run trade deficits with the principal Latin
American debtors. Our imports from Brazil
rose on average by 20% a year between 1979
and 1982.

Neither have

Neither have we hesitated to shoulder our international responsibilities towards the free world trading system. The Community, unlike some of its trading partners, has lived up to its immediate Williamsburg commitment. No new measures of protection have been adopted by the Community since the Williamsburg Summit. As regards the initial rollback of protectionism, the Community has been in the vanguard with its proposal for accelerated Tokyo Round tariff cuts.

All this has not been without its costs. An open market implies restructuring of traditional industries to reflect international movements in comparative advantage. Employment and productive capacity in the Community's traditional industries drastically reduced in recent years. To cite some examples, employment in iron and steel-making and other metal-manufacturing industries in the Community fell by 23% between 1976 and 1982. Employment in textiles fell by over 25%. (The comparable figures in the US were 20% and 18%).

Of course restructuring implies not just running down traditional industries, but building up new ones. Our record in terms of Research and Development in industry innovation is not one which we need to be ashamed of, but we are naturally anxious to do more. Total spending on R & D by the Community and its Member States is, as a percentage of GDP, roughly on a par with that of the US. The Community's Council of Ministers has only recently, at a time of stringent budgetary austerity, decided to adopt "Esprit", an ambitious programme on R & D on information technology.

Finally, before closing my parenthesis, I say this. The US will not readily find elsewhere a market as large, stable and reliable as the Community, either for its exports, or for its foreign investment. In 1981 44% of US direct investment abroad was in the European Community.

/What are the

What are the operational conclusions that we should draw with a view to improving the present state of EC/US relations? In my view we should do three things.

First, we should not get lost in the nitty-gritty of isolated trade policy measures and give them an importance beyond all proportion. On the contrary, we should try to maintain a view of the overall importance of our relations, try to understand each other's difficulties, and make our respective decisions only after full consideration of their wider economic and political implications.

Second, we should always keep in mind that we share enormous interests and responsibilities in maintaining an open world-wide trading system and in applying the rules which we have established with our main trading partners over the last 35 years. The competition between us has become much tougher in difficult economic times, but that should not endanger the fundamental economic and political partnership.

/To borrow

To borrow a metaphor from President Reagan, we are all sitting together in a rather leaky boat. The point of the Williamsburg commitment was that we all agreed to stop shooting more holes in the bottom of the boat, and instead to start bailing out the water.

Third, we should make all possible efforts to maintain and improve our channels of communication, consultation and mutual information at all levels. The regular contacts which we started a few years ago between a group of US Cabinet members and the Commission are a particularly useful contribution to the maintenance of that system of communication between the two sides of the Atlantic.

In this way, and with the right political will on both sides, we ought to be able to "cool it" and resolve our difference by a careful policy of quiet accommodation in the tricky months that lie ahead of us.

/For what is at stake

For what is at stake is more than just 90 billion dollars worth of trade across the Atlantic.

We firmly believe in the global dimension of our relation with the United States, and seem to have difficulties in impressing on our American friends the same sense of solidarity that has to prevail in the field of trade as much as in our political and our common defence relations.

What is the credibility of an Alliance, in which one partner allows trade relations to slip out of control, thereby undermining the other partner's trust?

It may well be of course that the United States do not put the same emphasis on their relation with Europe as in past years. A clear shift in US politics away from the Atlantic towards the Pacific has been noted by many observers, including top American politicians. Again, this may be the consequence of a shift in the economic balance of powers in the world, and there is definitely a challenge for the European Community here. But it seems to me that

/such an approach

such an approach overlooks the importance of one fundamental element in our Alliance, which is the belief in and defence of common democratic values. The day we forget this there will be no more Alliance worth talking about.

We in the Community are fully committed to the political dimension of our alliance, there can be no doubt about it. Yet we feel that our American friends do not always realise that our geographical location puts us in a particular geopolitical situation. The Iron Curtain is only a few hundred kilometres away. The Mediterranean Sea is our neighbour, opening the door to Africa and the Middle East. This should never be forgotten, not by the Americans, nor by the Europeans either.

The US must show understanding for our situation with regard to Eastern Europe, with regard to the Third World, too. We, on our side, must be seen as a reliable partner for the defence of the Western world. I am aware that Europeans need to make an effort in that field, as I have time and again encouraged them to do. Henry Kissinger has recently provided us with food for thought on this matter.

/I can only

I can only say that Europe has no other choice than to go ahead with the process of integration, which entails at some stage a common approach towards its own defence. I know of no effort towards economic integration that was not coupled with a common defence. Politicians in Europe begin, I believe, to realise this.

Some people, looking at today's problems within the Community, will no doubt wonder where the stimulus for going ahead with the process of integration will come from. Obviously it has to come from Europeans themselves:

either we have the political will to play the role that we think we should play on the basis of our economic, technological and human potential
or we shall sooner or later have to resign ourselves to remain no more than a few wealthy small nations with little say in world affairs.

I, for my part, hope that Europe will still have the courage to take up the challenge.

/But whatever

But whatever the outcome,

there is no option for the Community,

but on the side of the United States.

After all, fundamentally we share

common ideals and values,

common policy goals

and very largely common interests.

The only question is

whether and to what extent a more

united Europe will have a more

decisive influence on policies

- security, foreign, economic -

within the Atlantic Alliance.