CONTROVERSIES AND ISSUES

IN

U.S. - WESTERN EUROPEAN ECONOMIC RELATIONS

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BY

RONALD SORIANO

WEST VIRGINIA UNIVERSITY
I. INTRODUCTION: WHAT IS THE EUROPEAN ECONOMIC COMMUNITY

INTERNATIONAL TRADE - THE EXCHANGE OF GOODS AND SERVICES AMONG THE NATIONS OF THE WORLD - IS A CRITICAL ASPECT OF THE WORLD ECONOMY.

THE PROSPERITY OF THE WORLD - WHICH MOST OF YOU HERE ENJOY - IS BASED, IN GOOD PART, ON OUR ABILITY TO EXPORT AND IMPORT VARIOUS COMMODITIES AND FINISHED PRODUCTS.

A. ECONOMIC ASPECTS

THE INSTITUTION WHICH I REPRESENT - THE European Economic Community (or the Common Market, as it is also called) - IS ESSENTIALLY AN AREA IN WHICH THERE IS FREE MOVEMENT OF GOODS AMONG ITS TEN MEMBER STATES.

IT IS A SUPRANATIONAL INSTITUTION TO WHICH THE MEMBER STATES HAVE DELEGATED SOME OF THEIR SOVEREIGNTY, PARTICULARLY IN THE AREA OF ECONOMIC AFFAIRS. IN OTHER AREAS, SUCH AS FISHERIES, ENERGY, TRANSPORTATION, SOCIAL
MATTERS, AND RESEARCH AND DEVELOPMENT, A FRAMEWORK HAS BEEN ESTABLISHED FOR LOOKING AT COMMON PROBLEMS AND TRYING TO RESOLVE THEM AT A SUPRANATIONAL LEVEL.

THE MEMBER STATES ALSO HAVE ACHIEVED SIGNIFICANT PROGRESS IN THE FIELD OF MONETARY COOPERATION THROUGH THE ESTABLISHMENT OF THE EUROPEAN MONETARY SYSTEM (EMS). THIS SYSTEM HAS HELPED TO MODERATE EXCHANGE-RATE FLUCTUATIONS AMONG THE MEMBER STATES AND IS AN IMPORTANT STEP IN THE DEVELOPMENT OF GREATER COORDINATION OF ECONOMIC POLICIES, INCLUDING COMMERCIAL EXCHANGES.

B. POLITICAL VOCATION

THE COMMUNITY ALSO HAS A POLITICAL VOCATION. WHILE POLITICAL INTEGRATION REMAINS A FAR-OFF OBJECTIVE, ITS ACHIEVEMENT OVER THE SHORT-TERM IS UNLIKELY. AT THE SAME TIME, HOWEVER, THE LEADERS AND FOREIGN MINISTERS OF THE MEMBER-STATES MEET REGULARLY, AND THEIR STAFFS FREQUENTLY, TO TRY AND COORDINATE COMMON POSITIONS ON THE MIDDLE EAST, AFGHANISTAN, THE CONFERENCE ON SECURITY AND COOPERATION IN EUROPE, AMONG OTHERS. THIS PROCESS OF POLITICAL COOPERATION GIVES A EUROPEAN DIMENSION TO THE FOREIGN POLICIES OF TEN SOVEREIGN NATIONS.
C. THE GROWTH OF THE E.C.

THE COMMUNITY IS A GROWING INSTITUTION. IT HAS BEEN IN EXISTENCE JUST OVER A QUARTER OF A CENTURY NOW AND HAS EXPANDED FROM AN ORIGINAL SIX MEMBERS TO A CURRENT TOTAL OF TEN. GREECE HAS JUST JOINED. SPAIN AND PORTUGAL ARE NEGOTIATING ENTRY, WHICH SHOULD OCCUR IN THE MID-1980s.

TODAY, THE COMMUNITY HAS A POPULATION OF 270 MILLION AND A COMBINED GNP OF CLOSE TO $3 TRILLION, ALMOST EQUAL TO THAT OF THE UNITED STATES.

II. THE UNITED STATES AND THE COMMUNITY


A. U.S. SUPPORT FOR UNITY

THE UNITED STATES ITSELF WAS INTIMATELY INVOLVED IN THE INITIAL PROCESS OF EUROPEAN UNIFICATION. THE MARSHALL PLAN
for the recovery of Europe laid the foundations for the reconstruction of the continent at the end of World War II.

Support for European unity has been a key element of American foreign policy in the post-war period. A united Europe would not only ensure peace and prosperity among nations that had squabbled for generations, but would also provide a bulwark against the emerging power of the Soviet bloc.

B. Trade Partners and Competitors

The fledgling Europe has become an economic power which has extensive commercial relations with North America, particularly the United States, the Soviet bloc, and the Third World.

Europe’s economic growth has made it a major competitor of the United States. This competition has not only contributed to economic growth through wider consumer choice and lower prices, it has also been the source of frictions between the United States and Europe.
Trade disputes between the United States and Europe are not new, nor are they likely even to disappear. From the "chicken war" of the early 1960s to the "steel war" of 1982, Europeans and Americans have been skirmishing over the access to each other's markets. Endless and sometimes inconclusive trade negotiations have helped to defuse tensions in many cases. Yet, it seems that some trade dispute is always intruding upon the relationship, sometimes souring it to an intolerable level.

C. Agriculture

At the present time, the E.C. and the United States are engaged in a conflict over agricultural trade that could potentially be harmful to the overall American-European relationship.

This latest transatlantic skirmish is set against the backdrop of a world economic recession that seems to be lingering longer than expected. American farm income has been dropping in recent years and per head is now at its lowest level in 40 years. It is the industry total income that has dropped; but there are also fewer farmers. Total U.S. agricultural exports in fiscal year 1982 totaled $39.1
BILLION, down 11% from a record $43.8 billion in fiscal 1981. The level of such exports to the E.C. remained unchanged.

In the E.C. itself, agricultural exports fell as well, as measured during the first nine months of 1982. The E.C. remains the United States' largest single customer, buying some $9 billion out of a total of $39.1 billion of U.S. agricultural exports in 1982. The E.C., one should not forget, is a net importer of agricultural goods and runs a world agricultural trade deficit of some $30 billion.

The U.S. Department of Agriculture, in a recent report, indicated that "the economic recession, the high-valued U.S. dollar, foreign exchange constraints, and debt problems in many importing countries are reducing exports despite low U.S. farm prices."

USDA also projects that exports worldwide, including to the E.C., will continue to decline in 1983, by about 8 percent.
This situation does not bode well for quickly and satisfactorily resolving the conflict over agricultural trade.

The question, therefore, has been, to what extent the E.C. is responsible for the decline in exports.

Farmers and the U.S. administration have a tendency to blame the Community's Common Agricultural Policy - the CAP - for the problems of American agriculture. The CAP is portrayed as a protectionist policy instrument which keeps out imports and subsidizes exports, thereby displacing U.S. agricultural goods in third markets.

The issue of access to third markets for agricultural goods has thus become the major component in U.S.-E.C. trade relations.

The E.C. does not deny that it subsidizes exports, by compensating its farmers for the difference between the E.C. price - usually higher - and the world price for certain agricultural commodities. The subsidy system is part of the E.C.'s policy of guaranteeing prices for agricultural
PRODUCTS IN THE E.C., A POLICY DESIGNED TO ENSURE SELF-SUFFICIENCY AND MARKET STABILITY IN FOOD SUPPLIES.

THE EFFECT, HOWEVER, IS NOT UNLIKE THAT OF U.S. SUPPORT PROGRAMS, WHICH ALSO RESULT IN OVER-PRODUCTION AND LARGE BUDGETARY EXPENDITURES.

According to the agreement negotiated in the Tokyo Round of GATT negotiations, concluded in 1979, subsidies for agricultural goods are permissible as long as the products do not take more than an equitable share of world markets. The E.C. feels that it has kept to this agreement. This provision on agricultural goods was agreed to by the United States and was part of the balance of concessions struck by the negotiating parties.

In the case, trade figures show that the E.C. is not the culprit for the plight of American farm exports.

In the case of wheat and wheat flour, which account for nearly a third of the volume of total farm exports, the E.C. share of the world market between 1969-1971 and 1979-1982 increased by 3.4 percentage points, while the U.S. share expanded by 11.9 percentage points.
For poultry, the Community's share of the market fell from just under 55% in 1975-1977 to 45.2% in 1982. The U.S. share, meanwhile, fell from 38.5% to 24.9%, not because of the E.C. (whose own market share was declining), but because of subsidized exports from Brazil, which went from a 6.5% to a 31.9% market share over the same period.

III. Resisting Protectionism

The deterioration of the agricultural trade dispute would have severe consequences not only for U.S.-E.C. relations, but could also be a first step in the disintegration of the post-war international trading system and signal an increase in protectionism.

Trade protectionism is perhaps the most deleterious consequence of economic recession. It emerges many times out of frustration with the present state of affairs and out of fear of the future.

Yet, it is quite clear that protectionist actions, taken unilaterally, can only lead to counter-actions on the part of one's partners and to an escalation of economic warfare. What is ultimately tragic about all of this is
THAT IT WEAKENS THOSE WHO ARE ESSENTIALLY FRIENDS AND WHO HAVE COMMON VALUES BEFORE THOSE WHO ARE OUR COMMON ADVERSARIES.

PROTECTING AMERICAN AGRICULTURE AND THE STEEL AND AUTOMOBILE INDUSTRIES WILL NOT SOLVE THE PROBLEMS OF THOSE ECONOMIC SECTORS. Much of their problems are caused by strong domestic disinflationary policies, including high interest rates, which the current U.S. administration has chosen to adopt. High interest rates limit the availability of financial resources for investment and force bankruptcies in the farm and retail sectors.

The concurrent high value of the dollar has made U.S. goods less competitive abroad, curbing exports of U.S. industrial and agricultural products and increasing imports.

Reduced consumer demand at home and abroad, in addition, due to the recession, has also contributed to the downturn in those sectors.

IV. GATT
The key institutional arrangement for resisting the onslaught of protectionism is the General Agreement on Tariffs and Trade - GATT.

GATT, headquarterd in Geneva, provides the focal point for the consideration and adjudication of national practices affecting international trade.

The recent ministerial meeting of the GATT, in November 1982, which cabinet-level officials attended - the first such meeting in close to a decade -, provided the opportunity for 88 nations, the United States and the E.C., in the lead, to review international trade problems and set an agenda for the future.

While the ministerial meeting may not have produced what many people, particularly on this side of the Atlantic, would have wanted, the fact is that it took place and that a ministerial declaration to which all the participating parties adhered was issued, indicating that the Western nations and the less developed countries (LDCs) were prepared to at least think about some of their trade practices and policies and how to alter them, to bring them more into line with the principles of an open international
TRADING SYSTEM. THE MEETING BASICALLY ESTABLISHED AN AGENDA FOR THE STUDY OF NUMEROUS TRADE PRACTICES, INCLUDING AGRICULTURAL SUBSIDIES AND SERVICES TRADE.

ALTHOUGH ALL THE NATIONS PRESENT MADE A POLITICAL COMMITMENT TO REDUCE TRADE BARRIERS AND REFRAIN FROM PROTECTIONIST MEASURES, ONLY TIME WILL TELL IF THEY CAN STICK TO THEIR PROMISES. IN ANY CASE, THE GATT CONTINUES TO MAKE AVAILABLE AN INSTITUTIONAL APPARATUS TO WHICH NATIONS CAN TURN WHEN THEY FEEL THEY HAVE BEEN WRONGED.

THE UNITED STATES HAS BEEN USING THE GATT INSTRUMENTS TO SEEK ADJUDICATION OF A SERIES OF DISPUTES IN AGRICULTURAL GOODS - WHEAT FLOUR, SUGAR, POULTRY, PASTA, CANNED FRUITS AND CITRUS. A DECISION ON WHEAT FLOUR HAS JUST BEEN RENDERED, VINDICATING THE E.C. POSITION.

THE EUROPEAN CONCERN IS NOT THAT THE UNITED STATES USES THE GATT MECHANISM, BUT THAT THE MECHANISM IS USED SO EXTENSIVELY, WHICH RISKS STRAINING ITS DISPUTE SETTLEMENT PROCESS IN THE GATT - AS ONE EUROPEAN TRADE EXPERT STATES IT, - "JUST AS CERTAINLY AS OVERLOADING WITH TOO MANY BULBS AN ELECTRIC CIRCUIT."
A key element in the E.C.'s position on international trade is strict adherence to GATT. Pressures on this side of the Atlantic to revise GATT rules because they might not suit certain quarters, and particularly if the GATT panels rule against American producers, could only lead to pressures in Europe for counter-measures which governments could find tough to resist in these times of economic crisis.

The mechanisms are not perfect. They constitute, in a sense, "damage-control." But they are a buffer against mounting pressures to resort to misguided policies. Greater barriers in trade in times of economic downturn would only further arrest the return to economic growth and prosperity. As energy prices stabilize and as the trading nations of the world slowly adjust to changes in the patterns of trade among them, the world economy can recover from its latest economic crisis.

V. THE INTERNATIONAL MONETARY CRISIS

One cannot examine trade problems without taking a look at international financial developments, for one is tied to the other.
The current international monetary crisis has been a direct consequence of world economic stagnation. A great many countries, particularly in the developing world, have been unable to repay their debts to international banks and governments. Total third world debt is estimated to be between $500 and $600 billion. This situation has placed a great burden on the ability of nations, particularly in the developing world, to conduct trade and investment. Export earnings, already depressed due to the global recession and low commodity prices, are being used to repay debts rather than to finance trade and investment.

The International Monetary Fund (IMF) will be increasing its regular and special resources in order to maintain the liquidity in the international monetary system. The debtor countries will thus be able to borrow more, not only from international governmental institutions, but also from private banks. This will in turn allow them to lighten their burden and free resources for much needed trade and investment.

However, increased borrowing will be effective only if accompanied by domestic economic adjustment on the part of debtor countries and through an expansion of demand in the
INDUSTRIALIZED WORLD, THE DEVELOPING COUNTRIES' MAIN TRADING PARTNERS.

WITHOUT RECOVERY IN THE INDUSTRIALIZED WORLD, THE THIRD WORLD WILL NOT EMERGE FROM ITS ECONOMIC STRAITS.

AS INFLATION DECLINES IN THE WESTERN WORLD, PARTLY DUE TO RESTRICTIVE MONETARY POLICIES, AN OPPORTUNITY EXISTS TO STIMULATE KEY WESTERN ECONOMIES, THOSE OF THE UNITED STATES, WESTER GERMANY, THE UNITED KINGDOM AND JAPAN, IN PARTICULAR.

VI. CONCLUSION

1983 WILL BE ANOTHER DIFFICULT YEAR FOR U.S.-WESTERN EUROPEAN RELATIONS. AS I MENTIONED, THE AGRICULTURE TRADE DISPUTE WILL NOT BE EASY TO RESOLVE AND MAY TRULY DAMAGE THE RELATIONSHIP. OTHER, NON-ECONOMIC ISSUES, SUCH AS INTERMEDIATE NUCLEAR FORCE REDUCTION NEGOTIATIONS, DEFENSE BURDEN-SHARING, COULD ALSO CONTRIBUTE TO A TENSE ATMOSPHERE.

FORTUNATELY, FORMAL AND INFORMAL MECHANISMS EXIST, WHICH, WHILE NOT ALWAYS LEADING TO A FINAL RESOLUTION OF
PROBLEMS, PROVIDE CONTINUING OPPORTUNITIES FOR DISCUSSION AND CONSULTATION.

IN DECEMBER OF LAST YEAR, THE PRESIDENT OF THE EUROPEAN COMMUNITY'S COMMISSION AND FOUR COMMISSIONERS MET WITH SECRETARY OF STATE GEORGE SHULTZ AND FOUR OTHER U.S. CABINET HEADS TO REVIEW A HOST OF ECONOMIC PROBLEMS SOURING OUR RELATIONS.

AGRICULTURAL OFFICIALS HAVE BEEN MEETING SINCE THE BEGINNING OF THE YEAR IN WASHINGTON AND BRUSSELS ON WAYS TO RESOLVE THE AGRICULTURAL DISPUTES THAT HAVE ARisen BETWEEN THE UNITED STATES AND THE E.C. SIMILAR MEETINGS WERE HELD THROUGHOUT 1982 ON THE QUESTION OF E.C. STEEL EXPORTS AND THE PROVISION OF PIPELINE EQUIPMENT TO THE SOVIET UNION.

THE EUROPEAN COMMUNITY IS THE UNITED STATES' LARGEST TRADING PARTNER AND A HAVEN FOR MUCH AMERICAN INVESTMENT. THE UNITED STATES AND THE NATIONS OF EUROPE ALSO HAVE COMMON VALUES AND A DEEP RESPECT FOR ONE ANOTHER. FRictions WILL INEVITABLY CONTINUE AND THE Rhetoric ACROSS THE ATLANTIC WILL SOMETIMES BE STRIDENT.
Yet, I am confident that there is both the intellectual wherewithal and the political will on both sides of the Atlantic to surmount parochial concerns and narrow interests so that economic prosperity can be given the chance to re-emerge and peace thereby preserved.