

European Community



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INFORMATION NOTE

RESISTING PROTECTIONIST PRESSURES

No Acceptable Alternative to
Open and Fair Trading System, Says Haferkamp

The following is extracted from a speech given by EC Commission Vice-President Wilhelm Haferkamp, responsible for External Affairs, to the German-American Chamber of Commerce in New York on 10 November 1977.

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I said at a press conference in Brussels in July that the threat of protectionism in world trade was greater than it had been at any time in the postwar years. I do not think the situation has improved. Indeed, in relation to one important sector - steel - the pressures have grown worse; the action to which these may lead can take many forms - safeguards, counter-vailing duties or, most recently, anti-dumping actions - but the purpose is the same - to restrict imports.

But I think we must strongly resist these pressures. Let me state quite briefly why we have to.

First there is no alternative. It is claimed, I know, that the open trade policies we have been following are now out of date. What we need, the seductive argument runs, is a new doctrine - "organized free trade". I am only too aware of the temptations of this doctrine for governments. In these difficult economic times they face a wide range of pressures, not least of which come from interest groups within business and organized labor seeking protection in domestic markets. But I think it would be a perilous road to set out on. For what is "organized free trade" but limited protectionism? And when has the infection of protectionism, once established, failed to spread? So the very use of the phrase "organized free trade" reminds me of the sinister euphemisms of George Orwell's "1984", where there was a Ministry of Peace and a Ministry of Truth, both concerned with things very different from peace and truth. And you're in business. For most of you it has been an article of faith that when governments do step in, even under pressure, and try to organize trade, the result is, at best, restrictive, and can be a good deal worse.

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Textiles and Steel

Nevertheless, I must admit that in some limited cases there has been no alternative. In the early 1960's a compromise had to be reached in the field of textiles between the developing countries and the developed. We hope that if some intensive bilateral negotiations we are holding now in Brussels can be successfully concluded by the end of November, the Multi-Fibre Arrangement can be renewed for a further five years. Again, in the case of steel, there needs to be some discussions between the main producing countries in the Western world on all the aspects of the problem, not just quantities but prices, on adequate monitoring including pooling of information on plans for new capacity, and on restructuring. But what we have to guard against above all is a snowball series of attempts to tie up first one sector of world trade, and then another, in a web of restrictions. I cannot think of anything which would be worse for the prosperity, for the possibilities of growth and for the political stability of developed and developing countries alike...

Trade for me... means jobs and a decent living for those in them, and it means that the consumer is not exploited by restricting his freedom of choice. And the one way of not getting there is to bury our heads in the sand and adopt protectionist policies when we should be changing our industrial structure or our method of operating in line with the changing pattern of world trade. If the stage coach industry had had the benefit in the last century and since of some of the eloquence and muscle of the present-day protectionists, we'd have 100 per cent tariff protection on stage coaches, orderly marketing arrangements, and we'd still be turning them out - at an hourly wage rate which wouldn't buy you the froth on a glass of beer.

So I see no acceptable alternative to an open and fair trading system. And what is encouraging is that the system has held. The world has been through the worst recession since the 1930's, double-digit inflation and the enormous swings in payments balances caused by the oil shock. But it has not resorted to protectionism. Governments have shown courage in resisting domestic pressures. The leading countries of the Western world have agreed to a comprehensive strategy. And the international monetary system has adjusted. So if we have held the line so well in such difficult times, why give up now?

All the more because we can now see light at the end of the tunnel. After the gloom of this year's summer we can see the prospect in the OECD area next year both of somewhat faster growth, and of lower inflation. I expect growth to be in the 4 per cent range, and price rises should be at least a percentage point lower. There are patches of shade here as well as light, more in the case of Europe than in the case of the United States. But modest as the improvement is likely to be, there is the prospect overall of stronger and more stable growth in 1978.

So I think it would be a great act of folly if the leading nations of the Western world, having held the line against protectionism during the worst recession for 40 years, should give up now - just when we have the chance of moving, however slowly and uncertainly, into a happier and more prosperous era...

GATT World Trade Talks

I have mentioned two of the dangers, textiles and steel. But the central danger relates to the Multilateral Trade Negotiations in the GATT. After four years of preparations these are reaching the moment of truth. This is a venture which, like many a business operation, has great risks and great prizes.

What are the prizes? What we are trying to do is to settle the world trading system, not for one year or two but for the 1980's. This means - if we can all agree on a balanced package - an ambitious program of tariff-cutting extending over most of the decade, with a clause which would allow us at a certain point to relate the staged implementation to economic developments in the mid 1980's. It would mean arrangements satisfactory to us both on agriculture. And it would mean, as far as we are concerned, arriving at common rules - about customs valuation, standards, government procurement, countervailing duties and dumping. It would mean the United States - as part of a balanced package - coming into line with GATT. It would mean some real and substantial concessions from her negotiating partners. It would mean special treatment for the developing countries. It would mean that for the next decade or more we could renounce the traditional ponderous GATT trade negotiations every three years and - with the future mapped out for us in terms of trade liberalization over the 1980's - concentrate in the GATT on dispute settlement. Let me put it another way. The last decade has seen a growing internationalization of Western economic life. Business has pointed the way to integration. Relations between governments have not in all cases caught up. But we have now, more than ever, to ensure that domestic economic decision-taking does not get out of line with or disrupt the growing flow of trade between states. This calls for a different type of trade diplomacy - for a different, more interdependent world than when the GATT was set up.

But if the prizes are great, so are the risks. These negotiations are now entering a critical phase. If they fail, this will be a great and dangerous victory for protectionism. The motor of trade liberalization over the last 30 years will be seen to have failed. The trade barriers torn down since the war could very quickly be set up again. And this would mean a return to the jungle of trade restrictions of the 1930's. It would mean a return to the dole queues and the soup kitchens. It could mean the return in Europe of banners on the streets and torches in the night. I saw this as a boy. Some of you saw it, too. I don't want it. Nor do you. What can we do?

The next 80 days - that is, between now and the end of January - will decide whether these negotiations will succeed or fail, whether there is going to be peace or war in world trade.

For we in the European Community stand foursquare by the agreement we reached in Brussels with [U.S. Representative for Trade Negotiations] Bob Strauss in July that by January 15 next year we should have got the discussions in Geneva to the stage where final negotiations can start. We fully agree with him that we need to move fast: delay means failure, and we in the Community pledge our best to get everything to the starting line by the middle of January.

Our discussions in Washington earlier this week gave me hope that we should be able to meet this date, but much remains to be done. We have to bear in mind the need to keep the preparations simple. There is always a temptation to make the rules too elaborate. What we have to do is to set up by mid-January the outlines of a possible package. We can then submit this to our authorities as a basis for a negotiation. Of course we need some rules. We want to know we're buying and selling. But you're in the buying and selling business. You know that rules can't work out everything in advance. So let's keep the attorneys out of it just now and get to mid-January. Then let us try to bring this whole negotiation to a conclusion by the summer of next year.
