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TRADE RELATIONS BETWEEN INDUSTRIALIZED COUNTRIES IN TIMES OF CRISIS

Sir Roy Denman, Director-General for External Affairs, Commission of the European Communities, delivered the following speech to the Houston Chamber of Commerce on May 18, 1982.

I am very glad to speak to you today about trade relations between the world's major trading partners in today's difficult times. I shall concentrate on what we in Brussels consider at present our major problems - that is our relations with Japan and the United States.

Because today international trade is a reality to an audience like yours in a way which 30 years ago it was not. More than 20% of US industrial production is now exported. Farm produce from two of every five acres in US agriculture is sold abroad. One of every six jobs in the US manufacturing sector is created by exports. And almost one of every three dollars of US corporate profit derives from the international trade and investment activities of American firms. Every American family and every American farm has a stake in international trade. So you will know the picture is bleak. Let me tell you just how bleak it is.

The present state of world trade is at its gloomiest since the war. In volume terms aggregate world trade stagnated in 1981. It rose by only 1% in 1980. In that year cyclical downswings in the major industrial countries superimposed on the lower long term growth path since the early 1970s and the oil price increases, combined to make the growth and the volume of world production and world trade to the third lowest gains in a quarter of a century. And it is clear that at present economic levels the industrial countries will not attain a rate of economic growth sufficient permanently to reduce unemployment. Both in the Community and in the United States there is some hope starting in the second half of this year for a marginal increase in GDP. But unemployment in the Community is now approaching 11 million and is likely to remain remorselessly high. 40% of these unemployed are under 25. And all this means not only a dangerously stagnant situation in relation to world trade but protectionist pressures and strains - in all the major trading countries of the world - on the social fabric which imperil the open world trading system on which the prosperity of the free world has been built since the war.

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It is against that background that at meetings over the next few months a number of world trading nations are getting together to consider these economic problems. The Versailles Summit at the beginning of June will bring together the United States, Canada, Japan, four Member States of the Community, and the Commission - which acts for the Community in trade matters - and the Presidency of the Council of the Community. And in November this year, in Geneva, the GATT, the body which writes and polices the rule of law in world trade, will be holding its first Ministerial meeting since 1973; between 80 and 90 trade ministers will be there. It would not be realistic to think that one or two meetings can solve the trade problems of the world. And the Versailles Summit will have wider problems. But in the trade field we must hope that the GATT Ministerial meeting is also a success. A failure at the end of the year for the trading nations of the world to agree on major points would signal the end of the broad consensus on an open world trading system which has prevailed since the war and could mark the beginning of reversion to the protectionism - with all its political consequences - of the 1930s.

What are the prospects. Three elements seem to us essential if we are going to have a success in Geneva by the end of the year.

First the problems arising in trade and economic relations between Japan and its partners and which spring from an insufficient interpenetration of the Japanese economy into the Western economic system. We need to have got to the stage where there is some real prospect of a major opening up of the Japanese market and some restraint certainly for the time being in the Japanese exports pouring into some of the sensitive sectors of our markets.

Second, there needs to be some pause in the escalating trade conflicts between the European Community and the United States notably on steel and agriculture.

Third, economic activity in the main industrialized countries needs to revive. A rising tide, said President Kennedy, lifts all boats. The lift will not be enough as yet to deal with the problem of unemployment. But without some beginning, even modest, of a rising tide few would bet on the harbour lasting much longer.

Let me take these problems one by one. The problems of the Community - and I may add the United States - with Japan are ascribed from time to time by Japanese commentators to workshy Europeans and Americans facing efficient Japanese competition, to sheer protectionism, to a reluctance to adjust. The picture in reality is a different one. The Community's problems with Japan stem from a combination of three factors. Each on its own would be of limited import. Taken together, like the chemicals in a dangerous combination, they can create an explosion.

The first is the size of our bilateral deficit with Japan. In 1963, the ten present members of the European Community had a trivial 8 million dollar deficit with Japan. This rocketed to some 500 million in 1970, to 3.4 billion in 1975 and 14 billion in 1981.

At the same time Japanese exports to Europe in certain highly sensitive areas like automobiles, colour television tubes and sets, and certain highly developed machine tools rose massively.

At the same time European business found it difficult year in year out to penetrate the Japanese market.

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Taken in isolation, these factors are not all in themselves decisive. We run bilateral surpluses and deficits in turn with our trading partners. But taken together, a massive and increasing deficit, increasing inroads on our sensitive industries and a sense that our manufacturers cannot get into the Japanese market to the same extent as they can get into other industrialized countries of the world creates an increasingly dangerous climate.

Let me give just a few figures to support what I have said.

Total Japanese exports of manufactured goods in 1960 amounted to 3 billion dollars. In 1981 the figure had soared to 136 billion dollars. But Japanese imports of manufactures in 1960 at just under 1 billion dollars had risen in 1981 to only 28 billion dollars.

Again in 1980 the European Community imported manufactured products equal to just under 800 dollars per head. The figure for the United States was 547 dollars, the figure for Japan was 233. Thus Japan's imports of manufactured goods are about the same value as those of Switzerland, an economy one-tenth of that of Japan. And in per capita terms Japan is next to last among Member States of the OECD. The percentage of total imports represented by manufactured goods is equally striking - 55% in the case of the United States, 46.5% in the case of the Community - only 22% in the case of Japan.

These figures demonstrate more clearly than any long argument the size of an imbalance which is putting an increasing strain on the world trading system.

We have therefore over a period of years pressed the Japanese authorities to take action in a number of areas. We have asked for an easement of tariffs, fiscal charges and quotas, of what we consider to be very restrictive standards and testing and acceptance procedures as well as improvements in the conditions for financial services and investments.

We have asked the Japanese to provide tangible assurances that from 1982 onwards Japan will pursue a policy of effective moderation towards the European Community as a whole as regards Japanese exports in sectors where an increase in Japanese exports to the Community would cause significant problems, notably passenger cars, colour television sets and tubes, and certain machine tools. And more broadly, we have emphasized that the essential argument concerns the need for Japan to open up its market. This relates to the effect of Japanese trading and economic policies as a whole and the need to achieve a more balanced integration - commensurate with Japan's international responsibilities - of the Japanese economy with that of its main industrialized partners and notably with the European Community.

With this in mind, we have recently taken action to consult with Japan under the "nullification and impairment" provisions of the GATT. We have thus given notice that if no satisfactory adjustment can be effected between us within a reasonable period of time then we shall need to consider proceeding to take the matter for adjudication to the Contracting Parties of the GATT. This will provide the GATT with one of its biggest postwar tests. But we are faced with one of the biggest postwar problems of the world trading system. As some senior visiting Japanese politicians were recently told in Brussels "the regrettable fact is that the EEC now has trade problems with Japan of sufficient seriousness to compromise the overall economic and political relationship between us. If we cannot solve our trade problems or at any rate render them less acute then our efforts to restore prosperity and growth to our domestic economies and to the free world as a whole will be substantially set back. More than this, the tensions now prevailing in

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relations with Japan, not only in Europe but also in the US, risk precipitating the end of the free world trading system as we have known it in the postwar years".

Now let me turn to another sombre picture. Trade relations between the Community and the United States. There are differences between us in a number of areas - export credits, interest rates, East-West trade. But the main areas of difference at present relate to steel and agriculture.

On steel we are clear that the US steel industry has launched a massive campaign of harassment against European exporters. The trading rules do not declare dumping illegal. What is at issue is whether dumping to the extent it exists is causing material injury to the US steel industry. That is where the rules bite. We think that any such claim is moonshine. The share of the American market for Coal and Steel Community products in 1981 was 4.7% compared with 6.7% in 1979. Yet on January 11 four trucks containing over a million documents drew up outside the ITC Headquarters and 85 suits were launched against European steel markets. We said at the time that these suits were enormously strong on allegations and incredibly weak on evidence. There were companies against which allegations were made who never export the product cited for the good reason that they never produce it. There were people who had exported 450 tons. Is it conceivable that 450 tons can cause a problem? In the case of one product, hot rolled carbon sheet, Community exports represented 0.31% of the US market. In the case of cold rolled carbon strip 0.35%. Who do you think is kidding whom?

It is true that the ITC rejected a number of these cases in February. But the remaining cases still account for some four-fifths of the volume covered by the full number. And of course as this timetable rolls on this massive campaign of harassment is bound to have results in terms of withholding of appraisement and consequent reluctance, given the uncertainties involved, of importers to import. All this threatens trade of some 5-6 million tons, worth some 2 billion dollars a year. And to this should be added another recently launched action under Section 301 against Member States on speciality steel.

So much for one major area where grave consequences are threatened by US action for trade across the Atlantic. Let me turn to another - agriculture. Now here we should be clear from the outset that there can be no reasonable charge that the Community is a protectionist bloc. The EEC remains the biggest importer of agricultural products in the world. In 1980 we took a quarter of world agricultural imports and we had a trade deficit in agriculture of nearly 29 billion dollars. The trade deficit of the EEC in agriculture with the US increased in fact from 5.8 billion dollars in 1979 to 6.8 billion dollars in 1980. That was an increase of 17% and in the first nine months of 1981 it continued to increase by 13%.

An argument has recently developed on our imports from the United States of corn gluten feed. Here all we have proposed to our Council is that we open consultations with the United States on the possibility of temporarily levelling on rapidly spiralling imports from the US in return for compensation as provided for by the GATT procedures.

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In fact most of the argument between us is not about imports into the EC. It is about exports from the EEC to third markets. And here there is a basic difference of perception. Your authorities say agricultural subsidies are bad and must be removed. We say that this is not what the international trading rules provide. The agreement come to after long and difficult negotiations in the Tokyo Round in 1979 confirmed and elaborated a long standing rule that agricultural subsidies are permitted providing that these did not lead to any Member of the GATT obtaining more than an equitable share of world trade.

How has this worked out? First it should be borne in mind that we are not the only ones who give government aid to our farmers. In many official documents from the US we find comparisons which suggest that the cost of farm support in the EEC is 40% higher than that provided by the US Government to its farmers.

But such comparisons mean nothing. It really is almost impossible to get a precise idea of the financial support provided by governments for agriculture. You have to estimate not only the direct budget support but all the direct and indirect transfers of resources to the farm sector - not just budget subsidies, in other words, but also policies affecting land, production costs, direct and indirect taxation, transport costs and so on - and in relation to the USA spending from State budgets as well as from the Federal budget. If you compare budget spending on agriculture with the value added of the agricultural industry you will find that in 1976-78 the ratio in the EEC was 39.2% and in the US it was 37.6%. In our view if you compare like with like the conclusion must be that farm spending in the EEC is of the same order of magnitude as in the US.

So, as seen by the Republican Party, we are both sinners in the eyes of the Lord. Having said this what has happened then to our shares of world trade? Mr. Block complained to the Foreign Agricultural Policy Subcommittee of the Senate Committee on Agriculture on December 16 last year that "subsidies have helped to push EC wheat exports to 14 million tons, double their wheat exports three years ago, with a depressing effect on world prices". Yes, it is true that Community exports doubles between 1969-70 and 1980-81 to 14 million tons. But world trade was expanding even more rapidly. Our share actually fell from 16.6% to 14.9% over this period. What happened to US exports? They did not just double. They rose from 16.5 million tons to no less than 41.9 million tons - from 38.4% of world trade to no less than 44.8% of the world market. Indeed thirteen years ago the United States exported 40% of their production - now this amounts to between 60 and 70%. Let me take poultry. Community exports in 1978 took 54.2% and in 1980 54.3%. US exports over the same period remained broadly static. And in respect of total world agricultural exports between 1973 and 1980 EC agricultural exports rose marginally from 9.5% to 11.1%; US exports fell marginally 19.8% to 18.9%. In the United Kingdom lawyers used to talk about the fount of commonsense legal wisdom resting with the men on a Clapham omnibus. I think they would have difficulty in concluding from these figures that the Community was using agricultural subsidies to take an unfair share of world agricultural trade.

Let me go on to put it another way. After the hard fought agreement we reached in the Tokyo Round about "an equitable share of the world market" can we in Brussels go back to our farmers when the world market for a certain product is doubling or trebling and say to them that they cannot increase their exports because this might inconvenience farmers elsewhere? If you believe that, as the Duke of Wellington said, you can believe anything.

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And let us talk not only about the past. For the future the EEC intends to continue and intensify its efforts to rationalize its agriculture. Our underlying aim domestically is to put more and more responsibility on farmers themselves to dispose of surpluses especially by making the farmers contribute to the cost of surplus disposal. Not that we consider an excess of domestic production over domestic consumption is necessarily a surplus that must be eliminated. The EEC intends to keep its place in world trade. But we consider that for some products the European Community's price guarantees to its farmers should no longer be unlimited but graduated. We have this system already fully in force for sugar and in part for milk products. And for cereals we intend to fix "production thresholds" in terms of quantity for our cereals for the 1980s. This means that if the threshold is exceeded then in the following year the level of support will be diminished.

So much for some elements of the record and some guidelines we are following for the future. What has been the United States reaction to all this? I would divide it under four heads. In the first place a whole number of separate cases have been brought for adjudication to the GATT by the United States - wheat flour, sugar, poultry, pasta, canned fruit, and citrus. You might say why not? If there is adjudication in the GATT let it take its normal course. But in the first place these cases each require lengthy and detailed debate. In the second place this concentration of cases is not only unparalleled; it risks blowing the dispute settlement process in the GATT and with it the rule of law in world trade just as certainly as overloading with too many bulbs an electric circuit. A desire for maximum illumination does not mean that you want the lights to go out.

Secondly, the attitude of the US authorities to the GATT seems to an outsider somewhat uncertain. With the cases I have mentioned, they seem to attest the validity of the GATT, even while overloading the circuit. At the same time, as far as the provisions of the Subsidies Code negotiated in the Tokyo Round are concerned - with which no senior official now in Washington has any first hand experience - they seem somewhat less than certain. Mr. Brock said on February 11 to the Subcommittee on International Trade of the Senate Finance Committee that if the EEC Commission is found by GATT to be in the wrong, the EEC will change its policy. If the US interpretation is wrong the US will try to change the Subsidy Code. This is what is known in the Queen's English as "heads I win, tails you lose".

Again, you will know that the Commission has recently proposed to the Council of Ministers in Brussels that the Community start consultations with the United States under Article XXVIII of the GATT to level off the soaring exports from the United States of corn gluten feed to the Community - in return for due compensation. An official statement I have here by the Public Affairs Office of the US Mission to the European Communities says, "US says corn gluten duty not negotiable". This is simply not in accordance with GATT procedures. International trade rules provide that negotiation must be engaged; the compensation then offered needs to be the subject of agreement. But negotiation cannot be refused.

One further example. A statement of US views on the Common Agricultural Policy handed to us and widely distributed to Congress in February this year said, "the US cannot tolerate the evolution of the CAP to a common export policy ... EEC export subsidies are the single most harmful of EC policies. The US must

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seek an acceptable plan and timetable for their elimination". All this goes a million miles beyond what was negotiated in the Tokyo Round when not only the United States and the Community as two countries which subsidize their agriculture to a comparable degree agreed together with nearly 80 other Contracting Parties on the "equitable share of the world market" as the limiting factor.

A third point is the tone of voice adopted by the US Administration. And this was set by Agriculture Secretary Block before the House Agricultural Committee on 18 February when he said - and I quote - "my Department is working aggressively to stimulate long-term growth of exports of US farm products". Anyone could understand a Cabinet member's wish to boost the products for which he is responsible. But what worries us is this constant use of the word aggressive not just in this but many other statements. Mr. Block went on to say that "we are going to do battle with the EEC for ever and whenever it is necessary".

I find it difficult not to be reminded of Mark Twain talking about Carlyle and the Americans "at bottom he was probably fond of them but he was always able to conceal it".

Fourthly there are pressures on the part of the US Administration to change and broaden the rules of world trade in agricultural products. This we find surprising. For it is the United States which do not fully apply the GATT rules on agriculture. Since 1955 the so-called GATT waiver has allowed you to ignore certain rules of the GATT - to be precise, notwithstanding any provision of the GATT, the United States can impose what controls it likes on <u>inter alia</u> imports of cotton, sugar, peanuts, and dairy products. The EEC benefits from no such provision. And I mention only in passing the DISC system in force since 1972 - which we consider a clear export subsidy not to be applied to exports of non primary products - exports under Section 1 of P.L.480, the government to government agreements on milk products and the US method of applying drawback for sugar - all of which we do not consider compatible with the rules of GATT. Those who want to change the rules in any particular game should at least take care that they are accepting them and observing them.

It is difficult to avoid on the European side drawing two general conclusions from the facts I have set out. The first is that there is an attempt to shift the blame for certain difficult conditions in the United States to foreigners in general and Europeans in particular. The US steel industry is going through a difficult time. Like steel industries elsewhere - and in this the US industry is not unique - there has been inadequate investment, rationalization, modernization. All of you know that the troubles of the US steel industry do not in any substantial way come from European steel exports - these represent less than 5% of the total US steel market, and ludicrously small in the case of particular products. But the OECD steel consensus of 1977 provided that the burden of restructuring should be shared equally on both sides of the Atlantic. This is what the US steel industry is now trying to throw into the waste paper basket.

Again, on US agriculture all of you know that the deep troubles of US agriculture can be ascribed to a variety of causes: interest rates - total farm debt has soared to 200 billion dollars meaning that the average farmer owes 10 dollars for every dollar he earned, five times more than the historical rate - growing American agricultural surpluses, a strengthening dollar and a fall in the US share of Soviet grain imports since the embargo from 75% to 40%. Certainly

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competition in third markets has played a part. But the Community cannot and will not accept that its farmers do not have a right to make a living selling overseas providing they abide by the international trading rules. The Community is not prepared to be a scapegoat for the difficulties of US agriculture.

The second general conclusion is this. A rule of law depends nationally or internationally on those in authority being prepared to spell out what the rules are for better or for worse. No Sheriff in a Western town ever told everybody that the law would always be 100% in his favour in any circumstance. Nor nowadays does your lawyer. In the Community we had a case 18 months ago where there was massive pressure for import restrictions to be placed on American exports of petroleum chemical products because of the artificially low price in the United States for natural gas and the consequent fierce competition on the European market. On this the Commission of the European Communities stuck to its guns. We explained that there were not clear cut provisions in the GATT which could effectively tackle this particular problem - unless material injury could be effectively shown - and it was not. This made us very unpopular. We were told that the existing world trade rules were less than perfect. But they were the only rules we had. It is not to us apparent that the United States Administration is quite as ready to explain the rules of the world trading system in quite this even handed form. But unless we all of us do this with our clients it will become more and more difficult to keep what in the West you used to call "peace in the valley".

Mr. Chairman, I have tried to set out today a Community view of some of the tensions now straining world trade. Our hope would be - and we shall join in it from the Community in good faith - that the series of meetings we have over the rest of this year, our bilateral contacts and our meetings in the GATT, can contribute to resolving these key difficulties. If we do not, then what is at risk is simply the world trading system which has been responsible over the last 30 years for the biggest increase of prosperity in the free world ever recorded. The stakes are so high that we must succeed. This will require much courage, much effort and very cool heads. But we cannot afford to fail.

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