

No. 13/82
May 27, 1982

PROTECTIONISM: OUTLOOK FOR THE 80S:
THE EUROPEAN COMMUNITY OUTLOOK

Excerpts of a speech delivered by
Ambassador Roland de Kergorlay, Head
of the Delegation of the Commission
of the European Communities to the
Wharton World Economic Outlook
Conference in Washington, D.C. on
May 27, 1982.

... "Predicting what the future will bring for
international trade is never easy. If we look at the
post-war period, it is quite clear that the so-called
"trade wars" were mere skirmishes and never deteriorated
into full-scale conflicts or to a disintegration of the
post-war international trading system.

Consequences of U.S. Economic Policy

There are, however a couple of current developments
in the United States regarding trade which are causing
concern in Western Europe.

- One is the growing proclivity of the United States
to put the blame for recent difficulties in industry and in
agriculture, on the European Community. In agriculture,
particularly, it is downright false to place the responsi-
bility for the difficult situation of the American farmer
today, such as lower prices for certain commodities, on
the Common Agricultural Policy.

For example, in the case of wheat, world prices are
determined by the size of the U.S. crop and the demand
from the Soviet Union. Over the past three years, the
U.S. ~~world~~ crop has increased from 58 million metric tons
to 76 million metric tons. The 18 million-ton increase
was more than double the total E.C. wheat exports, meaning
that market prices would have been depressed even if the
E.C. has not exported wheat. The E.C. remains the world's
largest importer of agricultural goods and has a \$7 billion
agricultural trade deficit with the United States.

- A second disturbing development is the apparent desire in this country to challenge international trading arrangements, painfully worked out over a generation, by threatening to seek a revision of GATT rules.

Here again, let us take an example in the field of agriculture. The E.C. stands accused of subsidizing its exports of agricultural commodities. This allegedly undercuts U.S. products in third markets; therefore, U.S. producers claim, they must be removed. The existence of agricultural subsidies is permitted by a code negotiated and agreed to in the Tokyo Round of negotiations, which permits such subsidies as long as they do not entail the acquisition of more than an equitable share of world trade. We have abided by the code.

In fact, over the last decade, E.C. exports as a percentage of world agricultural exports went from 10 to 11% while U.S. exports rose from 14 to 17%.

These developments, it seems to me, constitute critical steps towards greater protectionism, because they, on the one hand, ascribe blame where it is not warranted, and, on the other, question the very framework within which international trade has blossomed over the past thirty years, and which has served to defuse protectionist measures.

High Interest Rates

Moreover, one must realize that much of the troubles experienced by the American farmers and the steel and automobile industries are largely a result of the strong disinflationary policies 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 increased value of the dollar has made U.S. goods less competitive abroad, curbing exports of U.S. industrial and agricultural products and increasing imports, although reduced consumer demand - due to the recession - is also a factor.

The Threat of Reciprocity Legislation

The potential enactment of reciprocity legislation in the U.S. Congress, to ensure equal access for U.S. goods to foreign markets also adds to the transatlantic protectionist atmosphere. A recent report shows that there are 14 bills before Congress calling for reciprocity in trade relations and over 50 bills that contain some elements of protection. One motivation

behind this legislation is a general feeling of a perceived strengthening of protectionism in world markets; another is the desire to react against Japan's slowness in dismantling non-tariff barriers.

Reciprocity on a bilateral or sectoral basis could pose several problems for the international trading system. It would upset the balance of concessions, carefully negotiated in the multilateral trade negotiations, and be perceived as another protectionist tool, which could lead to retaliatory measures by trading partners.

The Future of GATT Rules

Perhaps more dangerous than this rhetorical and legal challenge to European Policies is an American preoccupation for altering the arrangements for monitoring trade policy. While we cannot but welcome the U.S.'s use of GATT instruments to seek adjudication of a series of disputes on both industrial and agricultural goods, we hope that the U.S. will not carry out its threat to seek a revision of GATT rules should the cases not go its way. This would set a dangerous precedent for other countries, that, in turn could themselves seek renegotiation of GATT rules if future cases went against them.

It is a misconception to believe that growing conflicts in international trade can be more easily settled by amending, adjusting, or creating new rules. As a recent GATT report concludes:

"When public policy is used to protect domestic groups facing competition from abroad, the plans of the foreign producers will be upset and their governments will, in turn, be called upon to take corresponding measures"

Furthermore, the large number of cases brought against the E.C. by U.S. producers of wheat flour, sugar, poultry, pasta, canned fruits and citrus is not only unparalleled, it also risks straining the dispute settlement process in the GATT and with it the legal world trade arrangements - as one European trade expert states it - "just as certainly as overloading with too many bulbs in an electric circuit."

A key element in the E.C.'s position on international trade is strict adherence to GATT. We have abided by the rules of GATT and will continue to do so.

At the same time, however, we must recognize that a potential danger exists that, should many of these cases vindicate the Community position, political leaders here would be pressed to re-examine the rules governing world trade.

It will be important in the future to ensure that the international instrumentalities which regulate world trade be used with prudence and when the situation truly warrants it, rather than in reaction to unwarranted domestic concerns.

Reciprocity legislation, countervailing duty and anti-dumping cases against E.C. steel exports, and the attempts to revise GATT rules could lead to pressures in Europe for counter-measures which governments would find difficult to resist in these times of economic crisis. Besides, revision of GATT rules would be a controversial and lengthy process. It could create an additional element of uncertainty in a very uncertain world.

The Need to Preserve the GATT System

In spite of many pressures and difficulties, the Western nations have been able to resist extreme forms of protectionism thus far.

The multilateral trade negotiations, particularly the Tokyo Round, have been a major factor in combatting protectionist tendencies.

A set of rules in the GATT, govern our trading relationship. Largely because of those rules and procedures, we have been remarkably successful in preventing the eruption of total chaos in the international trading system.

After Versailles, the GATT ministerial in November will afford an opportunity to re-assess our trade relations in greater depth. The Community welcomes any occasion to discuss mutual problems and to consult with our trading partners on how best to deal with growing protectionist pressures. The E.C. does not wish to pursue aggressive trade policies and welcomes the expansion and reinforcement of the consultation process among concerned parties, be they the informal meetings on trade, the bi-annual U.S. - E.C. high level consultations, or discussions within the context of the OECD and GATT.

Judicious use of GATT procedures will ensure their continuing strength and utility. Dampening rhetorical exchange across the Atlantic will create a better

atmosphere for solving problems and achieving solutions to trade disputes.

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 conjunctural crisis.

As this "damage-control" operation has been successful, so now must we commit ourselves for the future to what can be done in a positive way to resist protectionism and promote international trade.

We must seek to invest and collaborate further in research and development in order to improve old technologies and devise new ones, particularly in the fields of energy and telecommunications.

Generally, we must create the conditions in our respective home markets which will ensure the expansion of trade and, in conjunction with it, economic growth.

What is important to recognize today is that, just as we have been successful in using the legal international instruments at our disposal to deter trade wars and other economic altercations, we need to marshal the Western world's hallmark achievements and a foundation of peace for over a generation."

