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THE UNITED STATES AND
THE EUROPEAN COMMUNITY

ADDRESS

BY

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Introduction

In his address to the European Parliament on 8 May 1985 commemorating the fortieth anniversary of the ending of the Second World War, President Reagan said:

"I am here to tell you today that America remains, as she was 40 years ago, dedicated to the unity of Europe. We continue to see a strong unified Europe not as a rival but as an even stronger partner. Indeed John F Kennedy . . . explicitly made this objective a key tenet of post war American policy. That policy saw the New World and the Old as twin pillars of a larger democratic Community. We Americans still see European unity as a vital force in that historic process."

This statement, predictably, was greeted with prolonged applause, but many of us felt even then that there was a certain uneasiness behind the euphoria and that by constantly reminding ourselves of the traditional closeness of our links we conveniently disguised the rising tide of questions and uncertainties that made our vaunted ties seem increasingly fragile. The relationship between America and her European allies has never been an easy one and it is only by recognising our differences and working to resolve them in a constructive way that we can sustain the dynamic of our friendship and preserve our own freedoms while offering hope to the rest of the world. It is my task today to push this process forward by looking frankly at some of our problems and suggest some areas in which we need to work more closely together.

The European Community and 1992

Americans tend to talk of Europe as if it was a homogeneous whole, but this is far from the truth. The Parliament in which I sit works in nine official languages, includes representatives of over sixty political parties arranged in eight broad groupings and represents twelve quite different political traditions ranging from long established democracies such as Great Britain and France to countries such as Spain, Portugal and Greece where democratic Governments have been reinstated only recently. The index of gross domestic product per head (in purchasing power parities) ranges from 14.5 in Denmark and Germany to 6.6 in Portugal and 7.0 in Greece. Given these disparities in political tradition and economic performance, the attempt to integrate these twelve separate countries into a single economic unit by the end of 1992 might seem hopelessly ambitious, yet this is the course on which the European Community is embarked, an ambitious programme of over 300 legislative measures designed to remove all obstacles to the free flow of people, goods and services. As we approach the half way stage, approximately one quarter of these have been carried through, notable progress has been made in the areas of common industrial and technical standards, liberalising capital markets and creating a single market for insurance and other financial services. It is quite true that major obstacles remain to be overcome; chief among these is the Commission's proposal to reduce indirect taxes throughout the Community to two distinct bands, each of them spread over 5 percentage points, a measure which they regard as essential if frontier controls are to be removed. This has run into predictable opposition from the different national governments, who regard the power to set their own tax rates as the bastion of national independence. Much hard bargaining remains to be done, but the signs are hopeful that this year of 1988 will be the year in which, as Commission President Jacques Delors has predicted, the momentum to achieve the single market will become irreversible.

At a meeting of the European Heads of Government in Brussels on 12 February, significant agreements were reached on the reform of the Community finances including legally-binding restraints on the growth of agricultural production. These agreements required considerable concessions from the national leaders, who, when it came to the pinch, were prepared to subordinate their short-term political interests to the overriding goal of achieving European integration. As a result, a major obstacle has been removed from the path of the 1992 programme and the Heads of Government have demonstrated conclusively that they have the political will to achieve their common objective.

The February Summit leaves me confident that the remaining difficulties, substantial though they are, can and will be solved.

US Business and the Single Market

The single integrated European Market offers great opportunities for US business. Many major US corporations already have subsidiary operations in Europe and they will benefit, as will our domestic firms, from increased flexibility of operations and economies of scale. The days when it was necessary to have separate subsidiary companies to service different national markets will be gone and it will become practical and profitable to organise sales and production on a Continental scale. Opportunities will also accrue for stateside companies who wish to increase their business with Europe: they will only have to deal with one set of paperwork, one insurer, one transit agent and, hopefully before the end of the nineties, one single currency. The single European market will be good for US business and good for profits.

As always, opportunities give rise to certain risks. There are those who see the single market as a convenient way of increasing protection against third country imports under the guise of favouring the development of European business. If increased protection were to be the consequence of the single market, many of the attractions of an integrated economy would be lost; lack of competitive stimulus and contracting trade flows would prevent us from achieving the promised growth. American business can play a crucial role in turning back this threat - by involving itself as closely as possible in the development of standards and the detailed framing of legislation so as to ensure that the rules are suitable for non-EC companies who wish to trade in Europe, and by resisting the siren calls for protectionist measures in the US itself, which if enacted would provide the perfect excuse for those who wish to make the single market an excuse for featherbedding as opposed to an opportunity for growth. During these next critical months, I believe we need closer contact between businessmen in Europe and America, many of whom have substantial investments in each other's markets, so that together they can make sure that the single market works for business and expansion and not against it.

Transatlantic Trade disputes

Unity of purpose and understanding between businessmen has become all the more necessary because of the series of niggling trade disputes which have poisoned relations between two major trading partners. The growing complexity of business economics and the desire of the media for rapid and easily-understood solutions has made life easy for the special pleaders of sectoral interests. Adjustment is a painful and occasionally demeaning business, demanding the frank admission of past mistakes. How much easier to wrap self-interest in spurious patriotism and point to the nefarious practices of foreigners as the reason for one's lack of commercial success. Self-indulgent calls for 'level playing fields' and 'fair' treatment conveniently disguise the fact that the current US trade deficit has its roots in the policies adopted by successive Administrations and not in the unfair trading practices elsewhere.

In recent years, the European Community has made substantial concessions on steel, citrus, pasta, maize imports into Spain following enlargement, and telecommunications. As each dispute is settled, another raises its head: at present the most serious dispute is over the European aeroplane manufacturer, Airbus. US manufacturers who control nearly 80% of the world airframe market are seeking to exclude Airbus from the domestic US market on the grounds that it is subsidised by European Governments. They conveniently forget that the American industry receives substantial subventions from the US Government in the form of Government-financed research and development and cost-plus defence contracts. More to the point, if there were such things as international anti-trust rules the dominant position enjoyed by US aerospace industry would have been broken up long ago; as things are, it would be quite impossible for Europeans to gain even a toehold in this leading-edge high technology market without substantial help from the Governments who are shareholders in Airbus industries. From the other side of the Atlantic, the actions of the American manufacturers look suspiciously like an attempt to use Section 301 to consolidate a degree of market exclusivity that is inconsistent with world trade growth and distinctly inimical to the interests of the American consumer.

It has been profoundly depressing to witness the gradual slide from the free market principles of GATT towards bilateral agreements and unilateral counter measures; it is ironic to note that just as American exports are surging by monthly rates of up to 10%, a leading contender for the Presidency is finding it possible to attract substantial support for an overtly protectionist platform. The lesson of the thirties is clear: for each job saved by protection, hundreds are lost, and as the

negotiators meet in Geneva to reconstruct the open trading system and extend its provisions to services, intellectual property, and agriculture, we look to the United States to provide the leadership and moral authority that we have a right to expect from the world's leading economic power.

Agriculture and Trade

The bitterest and most damaging of our trade disputes are those concerned with agriculture. This is not surprising because not only do agriculture and the rural areas occupy a special place in a nation's sense of identity, it is also the industry which has been most affected by technological change. Early in the 1970's we were all pre-occupied with the problems of feeding the World's expanding population from our finite food production resources; now less than twenty years later, we are struggling to come to terms with chronic overproduction.

Within the European Community we have been engaged in reforming the Common Agricultural Policy since the early eighties. The process has proved exceptionally difficult, because none of us are prepared to see our agricultural industries devastated and our countryside made derelict. Farmers have to be led away from a system which is entirely oriented to increasing production to one that concentrates on quality, cost efficiency and, where necessary, income rather than price supports. Progress has been slow but steady: in 1984 quotas were established for the dairy sector, and in 1986 further restraints were introduced and limitations placed on beef support systems. In February this year the European Council at long last reached agreement on stabilising cereal production at 160 million tons and oil seed rape at 4.5 million tons. Further measures will certainly be necessary particularly in the cereals sector, but we can say with confidence that the principles of reform have now been firmly established and the re-adjustment of the Common Agricultural Policy, like the programme to achieve the single market, is irreversible.

American farmers have suffered severely as their traditional customers came closer to self-sufficiency and world-overproduction forced down prices. Successive Administrations have done their best to ease the pain of adjustment with price supports, loan guarantees and subsidised overseas sales. During this period the US share of world markets has fallen from 49% in 1981/82 to 29% in 1985/86 and during the same period the value has dropped from \$48 billion in 1981 to \$26 billion in 1986. Over the same period EC market share has remained steady at 14%, and, last year, our trade deficit with the US in agricultural products was \$2.6 billion. It is misleading and unfair to blame the Common Agricultural Policy for the problems of the US farmers. What we need is mutual recognition of a common problem and joint action to put it right.

The GATT negotiations are the proper forum in which to achieve this and we were intrigued by the US proposals to eliminate all price supports and export subsidies within ten years. Our own difficulties with agricultural reform have made us sceptical about the extent to which this is a realistic objective, but the

desire drastically to reduce subsidies is mutual and working together closely on the detailed implementation of such a programme may well bring an accord regarding this ultimate goal. If order and sense are to be brought into agricultural trade, we must put rhetoric behind us, abandon the notion that any one nation has a God-given right to dominate agricultural markets and get on with the urgent job of detailed reform, recognising that all change involves difficult and painful decisions for everyone.

The Global Economy

Even if we have learned nothing else from the events of the past few years, at least we now recognise that the days when national states, however powerful, could be economically independent have long gone. Indeed, the realisation that economic nationalism led to disaster was one of the key insights which led the states of Europe to seek full economic integration. The 19 October crash produced immediate reactions in London, Tokyo, Frankfurt and Paris and the fall in the US stockmarket was caused in part by a perception that the US was out of tune with her partners in resolving the allied problems of excessive budgetary and trade deficits. It is simply not possible to run an economic policy without considering the likely effects on trading partners or indeed the way in which their decisions have an impact on domestic policies. We need to give more attention to the international framework necessary for a global economy to work and agree between ourselves on the degree of regulation necessary for it to work effectively. It seems self-evident that any system of world economic co-operation must be based on agreement and understanding between the United States and the European Community. This could then be developed to encompass Japan and the other fast-developing countries of the Pacific Rim on the basis of mutual understanding and mutual advantage. By implementing the 1992 programme the EC is already making a contribution to this process, not only by providing a test bed, but also, at the end of the process, providing America with a strong and influential partner even, perhaps, with its own common currency capable of taking some of the strain off the dollar.

The Defence of the West post INF

I can well recall the then Assistant Secretary of State for European Affairs, Laurence Eagleburger, telling a group of Parliamentarians in 1982 that we should be careful that we did not let everyday niggling trade disputes poison the atmosphere and dog the channels of our dialogue to such an extent that when, towards the end of the decade, we were faced with really serious questions of defence and security we would find that our ability to talk to each other had hopelessly atrophied.

There is no doubt that some of those questions are beginning to be asked. The Reykjavik meeting between President Reagan and General Secretary Gorbachev brought home to Europeans the uncomfortable realisation that the basic assumptions on which our entire defence strategy has been built could be overturned in a single day's conversation between the heads of the superpowers. Although the INF Treaty has been widely welcomed as ushering in a new period of reduced tension, the fact remains that it is the US senate, and it alone, which will decide if that Treaty is to be ratified by the Western side. The projected removal of an entire class of nuclear weapons from European territory is bound to give rise to a substantial re-assessment as to how we can best cope with the threat of Soviet military blackmail, at a time when we understand that public opinion in the US is increasingly concerned at the nature, quality and extent of its commitment to defend Western Europe. These developments in an historic alliance which endured for 40 years should not give rise to irrational fears on either side of the Atlantic; international relationships must evolve and adapt to change like everything else. No one questions the paramountcy of the NATO Alliance and the necessity of maintaining its institutions - the Military Committee and the Integrated Command Structure - intact. It is however my personal belief that Europe must take an increasing share of the responsibility for its own defence, including closer cooperation between Britain and France, the two nuclear powers. Further I believe that the United States should facilitate this process and look upon the development of a strong and coherent European pillar as a desirable method of strengthening NATO, certainly not a means of weakening it. Indeed for many of us who believe in an eventual European Union, a common defence and security policy is a necessary element in the final binding together of our ancient nation states, and this is the best contribution we can make to the strength and stability of the free world.

Conclusion

I am a member of that post-war generation which grew up during the period of reconstruction so generously assisted and financed by the United States. I was in my freshman year at Oxford when John Kennedy made his inaugural address and I remember to this day the excitement and sense of purpose he evoked. For us, those fundamental American virtues of decency and idealism have shone like beacon lights in an increasingly cynical world and it is shared memories and emotions that bind us together more securely than any international treaty or agreement.

Yet times change and so do circumstances. We Europeans are embarked on the road of political and economic integration, an adventure every bit as exciting and challenging in its way as the great American expansion of the last century. In achieving European Union we need the understanding and support of the United States, just as you need our sympathy and help as you struggle to adjust your economy to the new realities of the 1990s. Sentiment is no substitute for frankness; we must be prepared to discuss our problems candidly and seek mutually acceptable solutions, there is no point pretending they don't exist. Working together, the United States and the European Community can make a massive contribution to a better and happier world, but if we fall out the future for all of us is bleak. Our friendship and shared values have stood the test of time - we must never make the mistake of taking them for granted.

MJW/em
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