

THE UNITED STATES AND THE EUROPEAN COMMUNITY:

ECONOMIC RELATIONS AT A WATERSHED

speech given

by

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## I. INTRODUCTION

On March 25, 1982 the European Community --the EC-- celebrated its twenty-fifth anniversary. It was an occasion both for celebration and reflection.

-- Celebration, because the European Community had come a long way, sometimes slowly and erratically, from its early beginnings in the late 1950s. It had created not only a "common market" which allowed for the free movement of goods, services, and people, but also the underpinnings of a united Europe.

-- Reflection, because Europe still has a long way to go to achieve full integration and a measure of unity. In these times of economic uncertainty, the EC is experiencing a kind of "identity crisis" of early adulthood. The European idea remains firmly imbedded in European society. It represents the rejection of nationalism and war which riddled Europe for generations. Yet, there exists a mood of uncertainty about the future and frustration about the best way to deal with the apparently intractable economic and international problems of the 1980s, from which the EC is not immune.

Part of this sense of uncertainty and frustration comes from the current nature of US-EC relations. I am not making a startling revelation if I tell you that US-EC relations are severely strained.

While this covers all aspects of the relationship -- military, political and economic -- I will limit myself to the important economic

problems in the Atlantic relationship.

US-EC economic relations are -- it seems to me -- at a watershed. They are set against a backdrop of converging political, economic, and military problems. This is perhaps what makes this latest "crisis" in Atlantic relations more apparent than those that have marked the relationship since the 1950s.

What is the background to this situation?

- first, there is a persistent economic deterioration on both sides of the Atlantic. High inflation, staggering levels of unemployment, low or even negative growth, and stifling interest rates are fueling a deep sense of pessimism among the people of the United States and Western Europe.
- secondly, there is the continued growth of the Soviet Union's military power - strategic, theater, and conventional - and of its unabated proclivity to pursue interventionistic policies in Central Europe and the Third World.
- thirdly, on a political level, forces are appearing, which may, if unchecked, lead on one side to the development of a mood of neo-isolationism and on the other to the emergence of pacifist and neutralist forces.

Yet European and American objectives are the same in the world today. However, we often differ on how best to achieve them.

The two most important economic policy areas where the allies seem to have heightened the level of discord in recent months are:

- East-West relations,
- Transatlantic trade issues.

## II. EAST-WEST RELATIONS

Differences in approach and perceptions on how best to conduct East-West policy have never been better illustrated than in the case of the reaction to the situation in Poland.

European and US objectives in Poland are the same:

- the end of the martial law;
- the release of those arrested;
- the resumption of a general dialogue with the Church and Solidarity.

Popular reaction in Europe towards the situation has been as strong, if not stronger, than here.

We have also recognized Soviet "responsibility", for the recent developments in Poland.

Yet, we have diverged, and the US, in particular, has criticized the European decision to proceed with the pipeline deal with the Soviet Union.

The conclusion of the Siberian Natural Gas Pipeline contract is part of Europe's strategy of diversifying its energy sources, which will reduce the percentage of oil in its energy imports, an objective which the United States has also sought for itself.

The E.C. nations import over 50% of their primary energy needs (the United States imports less than 20%).

The increase in overall European dependence on Soviet gas will not be that important when the pipeline is completed, and cannot be reasonably used as a means to exert pressure. Further diversification of sources and stockpiling of energy resources can occur in the meantime.

In addition, the cancellation of the pipeline proposal would have an impact on employment at a time of high and rising unemployment -- a much greater impact in Europe than in the United States, since only some \$300 million of US exports would be affected as opposed to several billion for European companies.

At the same time, we have been more than willing to take a wide range of unified actions designed to demonstrate European concern about developments in Poland, and whose effect would be greater on the Soviet Union than on the allies.

These actions take into account both the need to preserve some East-West exchanges and to demonstrate Western dissatisfaction with Soviet objectives in Poland.

The EC Council of Ministers and the Commission have:

- pledged that they would not undermine sanctions imposed by the US against Poland;
- taken steps to impose certain economic measures against Poland such as the cancellation of subsidized food sales and credits;
- undertaken measures that would raise the price for egregious Soviet behavior by reducing the availability of hard currency, something it severely needs, by reducing imports from the Soviet Union.

In recent weeks also, Western European nations and the United States have been working together on ways to coordinate a common approach and policy towards the use of Western financial credits by the Soviet Union and its Warsaw Pact allies.

## II. TRANSATLANTIC TRADING FRICTIONS

### 1. The EC and trade

I would like now to turn to the area of most concern to me in recent months - the mounting transatlantic economic disputes that risk leading us down the dangerous path of protectionism.

Before we examine the nature of these disputes, I would like to remind you of some basic statistics that underpin the US-European economic relationship.

- twenty-five years ago, as the European Community was being born, the combined GNPs of the original six members was a mere \$ 165 billion as compared to \$ 441 billion in the US.
- today, the EC-10 member states have a combined GNP of \$ 2.8 trillion, about the same as the United States.
- the EC countries group some 270 million people. The US population now totals 230 million.
- the European Community - whose development was supported and even nurtured by successive US Administrations - has become the world's largest single trading bloc and a powerful competitor for the United States.

- . the US and EC, at the same time, are each other's major customer;
- . the US maintained about a \$ 11 billion trade surplus with the EC in 1981 (\$ 20 billion in 1980);
- imports and exports from and to third countries (extra-EC trade) constituted over 20% (36% intra-EC trade) of the EC's gross national product (12% for US);
- European imports of manufactures from the developing countries (as a percentage of GNP) are 24% larger than those of the US.
- the Community imports 90% of its raw materials.

The development of the European Community has been based primarily on the principles of the liberalization of trade - intra-European, transatlantic and worldwide.

. the EC and its executive body, the Commission, by coordinating the trade policies of sovereign nations, have acquired primary responsibility for carrying out European trade policies and negotiating international trade agreements and reducing barriers to trade within the context of GATT.



. the EC has been responsible for defusing mounting protectionist pressures in Europe, from the chemical and textile industries for example.

. in recent months, our objectives vis-a-vis the United States have been to avert a trade war erupting over growing disagreement with our American allies on agricultural and industrial goods.

## 2. Agriculture

In the field of agriculture, there has been a marked deterioration between the United States and Europe.

. some US Government officials, consumed, it seems, by a great desire to export, are "escalating" agricultural disputes and heightened the level of rhetoric. In particular, they have attacked the EC for subsidizing exports.

. we Europeans, believe that we have abided by the rules of GATT negotiated in the Multilateral Trade Negotiations, and which allow subsidies as long as they do not entail the acquisition or more than an equitable market share in third markets. Using the same base years, EC agricultural exports as a percentage of world

agricultural trade, have risen from 10% to 11.4% between 1971 and 1980 while the US share went from 14% to 17% in the same period. Yet a number of cases have been brought against us in GATT.

There is great concern in Europe regarding the possible intention on the part of the US trade and agricultural officials to seek a renegotiation of GATT rules on agriculture should the US complaints not go their way.

Such an eventuality would leave the door open for retaliatory and protectionist measures in Europe, where the farmer is also experiencing a severe decline in his level of income.

### 3. Steel

Another area of irritation concerns European steel exports to the United States.

- petitions under anti-dumping and countervailing duty statutes have been filed by the American steel industry against producers in seven member-states of the European Community. This has created a powder keg which must be defused.
- the US steel producers claim that European countries are subsidizing their steel exports. Our view is

that the steel industry's difficulties are to be ascribed to the worsening of the US economic situation which, in particular, led to a spectacular drop in the demand for steel on the American market.

- the filing of these cases has created a high degree of uncertainty among European steel producers, who will hesitate to export, leading to more difficulties for a seriously troubled industry in Europe.

- these complaints filed by the US steel industry constitute a form of harassment to us.

#### 4. Interest rates

Just a word about a recent - but not new - transatlantic economic problem.

High US interest rates have become, once again, a cause of concern for European governments and financial officials.

The interdependence of our economies and monetary systems make the projected US budget deficits and high interest rates a matter of concern in Europe.

. high interest rates make it difficult for European countries to reduce their own interest rates, thereby stifling economic recovery and growth.

. the recent monetary instability reflected in overly high interest rates and considerable volatility of the exchange rates has worsened the economic crisis and impeded economic recovery on the European side of the Atlantic.

. failure to achieve some measure of economic growth can only add fuel to protectionist demands.

#### 5. Fighting protectionism

Economic dislocation, persistent recession and uncertainty about the future make people more inward-looking.

The political will and courage of governments coupled with the recollection of the consequences of beggar-thy-neighbor policies in the 1920s and 1930s are the only ramparts - it seems - against economic warfare and ultimately destruction of the international trading system all of us believe in and wish to preserve.

US proposals to enact "reciprocity" legislation to ensure equal access for US goods to foreign markets not only challenge the rules of international trade as they have evolved over the past twenty years, but risk initiating many world-wide protectionist measures.

The main economic challenge to the Western world today therefore is to resist protectionism.

Protectionism is ultimately a more dangerous phenomenon than the pacifist or neo-isolationist expression of vocal minorities. It can severely damage the entire fabric of our relationship and "spillover" into other aspects of the relationship, exacerbating differences even further.

#### V. CONCLUSION

I do not want to leave you on a pessimistic note, although I am unfortunately convinced that the US-European relationship will continue to worsen before it gets better.

I am equally convinced, however, that over the long run, our common interests and shared heritage will help us surmount whatever problems come between us.

While Europe and America may have almost continuous - it seems - disagreements on how to deal with many issues, there are enough common beliefs among us to make us able to overcome our differences.

At the same time, however, we must learn better to understand one another.

Western Europe and the United States are both committed to the maintenance of an open Atlantic security and economic system.

Honest disagreements will always exist on how best to approach common problems:

- . the management of the East-West relationship in both its economic and military dimensions;
- . the alleviation of poverty and underdevelopment in the Southern hemisphere;
- . and the promotion of a free and open trading system.

The solution to this latest series of disputes will require a renewed commitment to consult more intensely, coordinate policies more effectively, and especially to understand better each other's perceptions on how to deal with challenges which in and of themselves, and taken individually, are no more serious than they have been in the past.

This process of consultation, coordination and understanding is not an easy one to carry out. It will take courage, wisdom, and mutual trust. These are qualities which are in abundance within an alliance of free and democratic societies. And I trust they will inexorably emerge once again to preserve that alliance and fulfill its objectives.