

SPEECH BY EC COMMISSIONER IVOR RICHARD
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PARTNERS / COMPETITORS - FRICTION IN US/EEC
TRADE RELATIONS

Mr Chairman,

I am very pleased to be with you today, although I wish that the theme of my address could have a more optimistic ring to it. To talk about friction in US/European trade relations, and to pose the question whether we are now partners or competitors, is to give an indication that things are not as they should be in our relationship. And of course the strain and tension that the Western Alliance is at present experiencing is not only confined to economic and trade matters, but also includes differences of view over a range of international political considerations, of which perhaps the dispute over Poland is an obvious example. To those of us who have been firm supporters of the Western Alliance since its foundation, and who continue to see its maintenance as our best hope for achieving peace and prosperity in the world, these are worrying times. Whatever our specific differences, be they economic or political, we must all be acutely conscious of the need to avoid actions which could eventually damage the Western Alliance.

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It is of course quite evident that the current world recession is responsible for highlighting many of the disputes in which we are currently engaged. We in Europe have now experienced over three years of rapidly declining economic activity, and there is no indication that the recession is bottoming out, let alone signs of an economic up-turn. Both the material and psychological effects of the recession have been profound in Europe. To a Community that had experienced over two decades of rapid economic development and prosperity, and who was successfully overcoming the effects of the 1973^{and 1978} oil price increases, the present recession has delivered a major blow to our body politic. We are alarmed not only at the depth of the recession, but also at the speed. If I can just take as an example the employment situation. In the 10 countries of the European Economic Community there were some 6 million unemployed in 1978; there are 11 million unemployed in 1982, and it is realistic to assume that there will be 15 million by 1985. The percentage of our work force which is now unemployed is approaching 12%. And this, I should point out, relates only to those registered unemployed, there being general agreement that there are probably between 20 and 25% more people out of work than are registered. As you can imagine, this

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situation is having a most damaging effect on European society for all sorts of reasons. With the dreadful memories of the slump of the '20s and '30s in Europe still prominent in the minds of many, unemployment has always been a highly sensitive political issue. Because of this, the pursuit of full employment became one of the principal goals of most, if not all, European Governments in the post-War period. As a result of this, in the 25 years following World War II, the level of unemployment in Europe remained at a very low figure indeed. Most European Governments sought to keep unemployment down to between 2 and 3%, and in the main they succeeded. During the same period, the US regarded a figure of between 5 and 7% as an acceptable level of unemployment. So you can see that, in a very short time, Europe has moved from being prosperous and at work to being much less prosperous and with many unemployed.

I recognise of course that the United States is also experiencing economic difficulties, and that your levels of economic activity and of unemployment are not what we would all like to see them. And of course this common experience of economic difficulties

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tends to sharpen the disputes we are having over trade relations.

Before I start to deal with these disputes, and to give you a European view of them, I should like to stress how important I believe it to be that these difficulties are resolved at the earliest possible moment. For there is no doubt in my mind that, against the background of a world recession, the sort of difficulties Europe and America are experiencing in their trade relations are just the things that give an enormous stimulus to protectionist feelings. To those of us who believe that an expansion of protectionist measures would be a major threat to our economic prosperity, there are worrying signs on the horizon. It is my firm conviction that the way out of our present economic difficulties is to make world trade more free, and not to be seduced by the short-term attractiveness of erecting national tariff barriers. But, of course, one must recognise that the activities of some nations who claim to support liberal trading policies are a threat to international free trade. I specifically have in mind the activities of the Japanese. Our experience in the European Community is that it is

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appearing to be impossible to get a negotiated settlement with the Japanese which would lead to their opening their markets in a fair and reasonable way to European exports. I am of course aware that the United States has had similar difficulties with the Japanese. But one of the worrying consequences of the refusal of the Japanese to enter into meaningful negotiations is that the feeling in Europe that we must take measures against Japan is growing at an alarming rate. It is true that many people deny that they are protectionist in this regard, and claim that they are only responding to the unfair trading practices of the Japanese, and there is undoubtedly something in this. It nevertheless will further push Europe down the slippery slope of protectionism if we have to take action against Japan. I hope we won't, but I am bound to say that, as a committed free trader, I find it extremely difficult to justify the activities of the Japanese in their relations with Europe. Not only do they continue to maintain massive and ever-increasing trade surpluses with the European Economic Community, but they also pursue marketing policies in certain growth industries, like motorcars, televisions

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etc, which seem aimed at destroying those sectors of European industry. And all this whilst at the same time denying European exporters fair access to Japanese markets. It is because we believe that if this type of activity continues it will inevitably lead to a major economic confrontation between the European Community and Japan, that we have decided to use the provisions of GATT to see if we cannot reach a fair and more equitable settlement. I am quite sure this is the only way to deal with these situations - to operate within the international legal framework and to seek settlement by negotiation rather than confrontation.

I very much hope that this approach of seeking negotiated settlements within an international legal framework will be the approach of both the US authorities and the European Community in seeking solutions to the differences that exist between us. I can assure you that, as far as the European Community is concerned, this will be our attitude, both in terms of the current disputes on steel and on agricultural exports. For as my colleague, Viscount Davignon,

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said recently, we accept American assurances that the European steel industry will get a fair trial in the United States. We are equally ready to accept the results of the GATT investigation on agriculture that is currently under way. That is not of course, Mr Chairman, to indicate that the European Community will not vigorously pursue its case on both these issues. We believe that our actions in these matters have been both fair and legal. On steel, we very much regret that a negotiated agreement has not been possible. It is our view that the suggestions that we advanced on maintaining an improved trigger price mechanism should have provided the basis for an agreement. But the U.S. steel industry obviously thought differently, and it has had recourse to its legal rights and has filed a whole range of anti-dumping suits. Whilst we in the European Community continue to affirm that the exports of European steel to America does not constitute dumping, we also recognise that the actions of the steel industry in having recourse to legal action will create such a period of uncertainty that it is likely to have a most damaging effect on the market. We are quite sure that we now face the prospect of losing a considerable part of our steel export trade to the United States. This will
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not be because the European Community has been found in violation of any agreement or of US law. Rather, it will be because the very action of the US steel industry in invoking legal processes will create such uncertainty in the minds of US steel importers as to very adversely affect our trade. We of course recognise that the US steel industry is entitled to have recourse to its legal rights. But we also feel that if, as a consequence, the European Community loses many hundreds of millions of dollars in steel exports, then this is very rough justice indeed. I confidently expect that the verdict on the results of these legal manoeuvres will be that the European Community is innocent, but impoverished.

On the question of the differences between Europe and the United States on agricultural products, the situation is somewhat different. For not only
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is there a dispute over the facts, there is also, I suspect, a conflict of ideology. The attitude of the Administration seems to be that subsidies to agricultural exports are wrong in principle. This is a point of view I can understand if one is committed as a matter of principle to an unfettered free market economy in which efficiency, productivity and aggressive marketing are the principal elements. But in fact that would not be an accurate description of the US agricultural industry. For I am told that the measure of subsidy which the US Government injects into US farming is at least as great as, and possibly greater than, the Community puts into the Common Agricultural Policy.

I ought to say, at this juncture, that I am a severe critic of the Community's Common Agricultural Policy. I regard it as absurd that we should undertake an obligation to pay farmers high level prices,

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often above world prices, for everything they produce without regard to whether the Community requires those products or not. But that, I must also point out, is an argument about how the Community allocates its own resources, and not about the rights and wrongs of agricultural subsidies.

The essence of the Administration's case against our agricultural policy is that the Community is unfairly competing against American farmers for world agricultural markets through the use of subsidised exports. I want to make it absolutely clear that the Community repudiate this allegation. The Community position on the subject of export refunds for agricultural products is not only perfectly clear, but totally conforms with the rules of GATT, which permit export subsidies for

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primary products. Export subsidies are allowed under GATT provided that the country granting the subsidies does not have more than an equitable share of the world export market for the product in question. This principle is one of the fundamental rules of GATT and was confirmed and made clear during the Tokyo Round negotiations. It is therefore unacceptable that the US, principally for ideological reasons, should take up a position which throws this principle into doubt, while at the same time calling for stricter application of other positions of GATT. But just as we resolved to meet our obligations under GATT, we shall equally insist on our rights, and we hope that the US Administration will do the same. For I am sure that, if this question is to be settled in a fair and constructive manner, it can only

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be on the grounds of a mutual recognition of our rights and obligations under GATT. I am afraid that at present this desired atmosphere does not prevail, because there seems to be a feeling in some circles in the Administration that it is sufficient for proceedings to be taken against the Community under GATT regulations for them to be considered ~~proved~~. Having been charged, we are automatically considered as being guilty. This is an attitude which we find unacceptable. The rights or wrongs of Community practices can only be established when GATT procedures have been completed, and that has not yet happened. I hope it will happen soon, but I am bound to say that the sheer number of complaints the Administration has made under GATT procedures places such a burden on an untried system as to threaten to wreck it.

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I mentioned earlier, Mr Chairman, the growing concern in the Community over the growth of protectionist sentiments, both in Europe and the United States. One aspect of this which we have been watching closely is the idea of reciprocity in US trade legislation which has become a feature of a large number of Bills on international trade currently before the Congress. As I have already said, the European Community has an obvious interest in maintaining an open and multilateral trading system, and we have made known to the Administration our concern that reciprocity might disrupt that system at a most sensitive time in international trade relations and provide ammunition for the protectionist lobby. We have noted that the US Trade Representative, Ambassador Brock, said that the US will continue

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to respect its international obligations and will concentrate efforts in a positive attempt to increase trade by improving market access. However, we should be careful to ensure that the trading system embodied in GATT is not undermined by new US legislation. It is important, I believe, that the United States and Europe should remain in the closest contact on this issue.

It is of course, Mr Chairman, imperative that the United States and Europe remain in close contact not only on such issues as reciprocity, but indeed in attempting to evolve a strategy to deal with our current problems. The present state of world trade represents the gloomiest situation since the War. In 1980 cyclical downswings in the major industrial countries combined to minimise
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growth in the volume of world production. And it is clear that inflation at present levels will not allow industrial countries to attain a rate of economic growth sufficient to permanently reduce unemployment. In the Community there is some hope, starting in the second half of this year, for a marginal increase in gross domestic product, possibly of the order of 1%. This compares with a negative growth of 0.5% in 1981. In the United States, there is also ^{hope} some/of marginal growth roughly of the same order, starting in the second half of this year. These prospects are to be welcomed, but even so we must recognise that the dangerously stagnant situation in relation to world trade continues to put strains on the social fabric of our societies which imperil the open world trading / system ...

system on which the prosperity of the free world has been built since the War. It is therefore of the utmost importance that Western leaders meeting together at the Versailles Economic Summit seek the opportunity to lay the foundation of world economic recovery. They must try to turn away from their differences and disputes and define new areas and initiatives. Particularly on matters of trade, they must devise a strategy for the GATT Ministerial Meeting - which will be attended by ⁸⁰ Ministers of Trade

- which is to be held in November of this year. They must ensure that this meeting is a success, and this will only happen if we are all seen to be re-committing ourselves to the open world trading system and the rules of GATT. I recognise that it is not realistic

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to assume that this meeting can signal the start of a new round of trade negotiations. The results of the Tokyo Round have still to be implemented. Nevertheless, the GATT Ministerial Meeting could perform a signal service in issuing a tough declaration on the need for the maintenance and development of the world open trading system and in setting in hand a workmanlike programme of specific actions to follow up the major liberalisation efforts of the Tokyo Round and to inaugurate a number of studies that could prepare the ground for further trade negotiations. A failure to agree on major points could hasten the end of the broad consensus on an open trading system which has prevailed since the War, and could mark the beginning of a reversion to the protectionism - with all its political and economic consequences - of the 1930s. It is,

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Mr Chairman, because the prospects of economic disaster remain great that it is essential for the US and Europe to work together. The difficulties and disputes which are currently troubling us are completely insignificant when compared with the dangers we face if we fail to evolve joint economic and trade policies. Fortunately I repose complete faith in the ultimate good sense of the peoples of the United States and of Europe, and therefore believe we will overcome these problems.

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